

In the opinion of Kennedy & Graven, Chartered, Bond Counsel, based on existing law and assuming the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (i) is excluded from gross income for federal income tax purposes, (ii) is not an item of tax preference for federal alternative minimum tax purposes, (iii) is excluded from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes, and (iv) is not an item of tax preference for Minnesota alternative minimum tax purposes. Interest on the Bonds is subject, however, to the Minnesota franchise tax imposed on corporations and financial institutions measured by income. See "TAX EXEMPTION AND RELATED CONSIDERATIONS" herein.

OFFICIAL STATEMENT**\$3,305,000****GENERAL OBLIGATION NURSING HOME REVENUE REFUNDING BONDS, SERIES 2019A
ITASCA COUNTY, MINNESOTA****Dated Date:** Date of Delivery**Principal Due:** February 1, 2020 through 2031

The \$3,305,000 General Obligation Nursing Home Revenue Refunding Bonds, Series 2019A (the "Bonds") are issued by Itasca County, Minnesota (the "County") pursuant to Minnesota Statutes, Chapter 475, as amended and Section 376.56 (the "Act"). The proceeds of the Bonds will be used for the purpose of (i) current refunding the outstanding maturities of the Taxable General Obligation Nursing Home Revenue Bonds, Series 2009A (Build America Bonds-Direct Pay), dated October 14, 2009 (the "Refunded Bonds") and (ii) paying the costs associated with the issuance of the Bonds. The Bonds are general obligations of the County for which its full faith, credit and unlimited taxing powers are pledged, but will be payable primarily from net revenues of the Grand Village Nursing Home located in the City of Grand Rapids, Minnesota (see "Security and Source of Payment" herein).

The Bonds will be issued as fully registered bonds without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases may be made in book entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal payable annually on February 1, beginning on February 1, 2020, and interest, payable semiannually on each February 1 and August 1, beginning February 1, 2020, will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent dispersal to the beneficial owners of the Bonds as described herein.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY. See DESCRIPTION OF THE BONDS - "Bond Insurance" and "APPENDIX D - "Specimen Municipal Bond Insurance Policy" herein.



The Bonds will mature on February 1 in the following years and amounts:

Interest					Interest				
Year	Amount	Rate	Yield	CUSIP	Year	Amount	Rate	Yield	CUSIP
2020	\$ 180,000	3.00%	1.75%	465452KL3	2026	\$ 280,000	3.00%	2.05%	465452KS8
2021	220,000	3.00%	1.80%	465452KM1	2027	290,000	3.00%	2.10%	465452KT6
2022	235,000	3.00%	1.85%	465452KN9	2028	310,000	3.00%	2.20%	465452KU3
2023	240,000	3.00%	1.90%	465452KP4	2029	325,000	3.00%	2.30%	465452KV1
2024	255,000	3.00%	1.95%	465452KQ2	2030	345,000	3.00%	2.40%	465452KW9
2025	265,000	3.00%	2.00%	465452KR0	2031	360,000	3.00%	2.50%	465452KX7

The Bonds are not subject to redemption prior to their stated maturity dates except in the case of damage, destruction, or condemnation or upon the occurrence of a determination of taxability.

BANK QUALIFIED:

The Bonds are designated as "Qualified Tax-Exempt Bonds"

PAYING AGENT:

U.S. Bank National Association, St. Paul, Minnesota

LEGAL OPINION:

Kennedy & Graven Chartered, Minneapolis, Minnesota

Robert W. Baird & Co, Inc. as syndicate purchaser, has agreed to purchase the Bonds from the County for an aggregate price of **\$3,415,404.92**. The Bonds will be available for delivery on or about **May 7, 2019**.

The date of this Official Statement is April 10, 2019.

(THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.)

BAIRD

No dealer, broker, salesman or other person has been authorized by the County, the Municipal Advisor or the Underwriter to give any information or to make any representations other than those contained in this Official Statement or the Final Official Statement and, if given or made, such information and representations must not be relied upon as having been authorized by the County, the Municipal Advisor or the Underwriter. This Official Statement or the Final Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any sale of the Obligations by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the County and other sources which are believed to be reliable, but it is not to be construed as a representation by the Municipal Advisor or Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement or the Final Official Statement nor any sale made thereafter shall, under any circumstances, create any implication that there has been no change in the affairs of the County or in any other information contained herein, since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE OBLIGATIONS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE OBLIGATIONS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "Bond Insurance" and "Appendix D - Specimen Municipal Bond Insurance Policy".

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INTRODUCTION TO THE OFFICIAL STATEMENT

The following information is furnished solely to provide limited introductory information regarding \$3,305,000 General Obligation Nursing Home Revenue Refunding Bonds, Series 2019A (the “Bonds”), issued by Itasca County, Minnesota (the “County”) and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the appendices hereto.

Issuer:	Itasca County, Minnesota.
Authority:	The Bonds are issued pursuant to the provisions of Minnesota Statutes, Chapter 475, as amended and Section 376.56 (the “Act”).
Security:	The Bonds are general obligations of the County for which its full faith, credit and unlimited taxing powers are pledged, but will be payable primarily from net revenues of the Grand Village Nursing Home located in the City of Grand Rapids, Minnesota (see “DESCRIPTION OF THE BONDS” – “Security and Source of Payment” herein).
Purpose:	The Bonds will be issued for the purpose of (i) current refunding the outstanding maturities of the Taxable General Obligation Nursing Home Revenue Bonds, Series 2009A (Build America Bonds-Direct Pay), dated October 14, 2009 (the “Refunded Bonds”) and (ii) paying the costs associated with the issuance of the Bonds (see “DESCRIPTION OF THE BONDS” – “Authority and Purpose” herein).
Principal Payable:	Principal on the Bonds is payable annually on February 1 of the years 2020 through 2031.
Interest Payable:	Interest on the Bonds is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2020.
Optional and Mandatory Redemption:	The Bonds are not subject to redemption prior to their stated maturity dates except in the case of damage, destruction, or condemnation or upon the occurrence of a determination of taxability.
Form:	The Bonds will be issued in book-entry form only.
Record Date:	The close of business on the fifteenth day of the immediately preceding month, whether or not such day is a business day.
Tax Status:	The Bonds are generally exempt from federal and state income taxes. The Bonds are designated as “Qualified Tax-Exempt Bonds” (see “TAX EXEMPTION and RELATED TAX CONSIDERATIONS” herein).
Legal Matters:	Validity, tax exemption, and legal matters incident to the authorization and issuance of the Bonds are subject to the opinion of Kennedy & Graven, Chartered, Bond Counsel. The opinion will be substantially in the form set forth in “APPENDIX B – Form of Legal Opinion” attached hereto.
Dated/Delivery Date:	The Bonds will be available for delivery on or about May 7, 2019.

Professional Consultants:

Municipal Advisor:

PFM Financial Advisors LLC
Minneapolis, Minnesota

Bond Counsel:

Kennedy & Graven, Chartered
Minneapolis, Minnesota

Paying Agent:

U.S. Bank National Association
St. Paul, Minnesota

Continuing Disclosure:

By a Continuing Disclosure Certificate, the County will covenant and agree to provide to the Municipal Securities Rulemaking Board, certain annual financial information of the type included in this Official Statement, including audited financial statements, and notice of the occurrence of certain material events. The County is the only “obligated person” in respect of the Bonds within the meaning of Securities and Exchange Commission Regulations, 17 C.F.R. Section 240.15c2-12. A copy of the proposed certificate is included in Appendix C.

The information set forth herein has been obtained from the County and other sources which are believed to be reliable, but it is not to be construed as a representation by the Municipal Advisor or Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made thereafter shall, under any circumstances, create any implication that there has been no change in the affairs of the County or in any other information contained herein, since the date hereof.

Questions regarding the Bonds or the Official Statement can be directed to and additional copies of the Official Statement, the County’s audited financial reports and the Resolution may be obtained from PFM Financial Advisors LLC, 50 South Sixth Street, Suite 2250, Minneapolis, Minnesota 55402, (612/338-3535, 612/338-7264 fax), the County’s Municipal Advisor.

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DESCRIPTION OF THE BONDS

Authority and Purpose

The County is authorized to issue the Bonds pursuant to Minnesota Statutes, Chapter 475, as amended and Section 376.56 (the “Act”).

The proceeds of the Bonds will be used for the purpose of (i) effecting a current refunding of the outstanding maturities of the Taxable General Obligation Nursing Home Revenue Bonds, Series 2019A (Build America Bonds-Direct Pay), dated October 14, 2009 (the “Refunded Bonds”) and (ii) paying the costs associated with the issuance of the Bonds. The Refunded Bonds will be called for redemption on August 1, 2019.

The Refunded Bonds were originally issued to finance a portion of improvements to the County-owned Grand Village Nursing Home (the “Nursing Home”) located in the city of Grand Rapids, Minnesota.

Table 1 below provides a list of the outstanding Refunded Bonds and maturities and amounts to be refunded.

Table 1
Plan of Refunding

<u>Series</u>	<u>Outstanding Maturities</u>	<u>Amount Outstanding</u>	<u>CUSIP</u>	<u>Call Date</u>	<u>Call Price</u>	<u>Par Amount of Bonds to be Refunded</u>
2009A	2020	\$ 205,000	465452 GF1	08/01/2019	100%	\$ 205,000
	2021	215,000	465452 GG9	08/01/2019	100%	215,000
	2022	230,000	465452 GH7	08/01/2019	100%	230,000
	2023	240,000	465452 GJ3	08/01/2019	100%	240,000
	2024	255,000	465452 GK0	08/01/2019	100%	255,000
	2028 ⁽¹⁾	1,155,000	465452 GP9	08/01/2019	100%	1,155,000
	2031 ⁽¹⁾	<u>1,065,000</u>	465452 GS3	08/01/2019	100%	<u>1,065,000</u>
Total		<u>\$ 3,365,000</u>				<u>\$ 3,365,000</u>

⁽¹⁾ Subject to mandatory sinking fund redemption.

Security and Source of Payment

The Bonds are general obligations of the County. The principal and interest due are payable primarily from Net Revenues of the Nursing Home, but if necessary for the payment thereof, ad valorem taxes are required by law to be levied on all taxable property in the County, which taxes are not subject to any limitation as to rate or amount.

“Net Revenues” of the Nursing Home means revenues after the payment of all reasonable expenses of current operations of the Nursing Home.

Bond Insurance

BOND INSURANCE POLICY

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2018 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$526 million, \$113 million and \$414 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE".

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at

buildamerica.com/creditsights/. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at buildamerica.com/obligor/. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

Parity with Series 2009B Bonds, Series 2014 Bonds, and Series 2015A Bonds

Pursuant to a resolution adopted by the Board of Commissioners of the Authority (the "Board") on November 24, 2009 (the "2009 Resolution"), the County issued its Taxable General Obligation Nursing Home Revenue Bonds, Series 2009B (Recovery Zone Economic Development Bonds) (the "Series 2009B Bonds"), in the original aggregate principal amount of \$1,490,000. Pursuant to a resolution adopted by the Board on June 10, 2014 (the "2014 Resolution"), the County issued its General Obligation Nursing Home Revenue Refunding Bonds, Series 2014 (the "Series 2014 Bonds"), in the original aggregate principal amount of \$3,335,000, which refinanced the Nursing Home. Pursuant to a resolution adopted by the Board on July 14, 2015 (the "2015 Resolution"), the County issued its General Obligation Nursing Home Revenue Bonds, Series 2015A (the "Series 2015A Bonds"), in the original aggregate principal amount of \$2,350,000, which financed improvements to the Nursing Home. The payment of the principal of and interest on the Series 2009B Bonds, the Series 2014 Bonds, the Series 2015A Bonds, and the Bonds will be made on a parity basis, primarily from Net Revenues of the Nursing Home. If there is ever a deficiency in Net Revenues to fully pay principal of and interest on the Bonds, the Series 2009B Bonds, the Series 2014 Bonds, and the Series 2015A Bonds before the levy of ad valorem taxes as authorized by the resolution authorizing the sale of the Bonds, the 2009 Resolution, the 2014 Resolution, and the 2015 Resolution, available Net Revenues will be allocated on a pro rata basis to debt service payments then due on the Series 2009B Bonds, the Series 2014 Bonds, the Series 2015A Bonds, and the Bonds.

Bond Terms

Principal is due on each February 1 in the years 2020 through 2031 as set forth on the cover page of the Official Statement. Interest on the Bonds is payable on each February 1 and August 1, commencing February 1, 2020. Interest will be computed on a 360-day year, 30-day month basis, to the owners of record as of the close of business on the fifteenth of the immediately preceding month. Payments coming due on a non-business day will be paid on the next business day. Individual purchases may be made in denominations of \$5,000 or integral multiples thereof, of a single maturity.

Redemption Provisions

Optional Redemption Upon Damage, Destruction or Condemnation

The Bonds are subject to optional redemption prior to maturity in whole on any date at a price equal to the principal amount thereof plus accrued interest to the date of redemption upon the occurrence of any of the following events: (a) the Nursing Home shall have been damaged or destroyed to such extent that, in the reasonable opinion of the County, the repair and restoration thereof would not be economical, or (b) there occurs the condemnation of all or substantially all of the Nursing Home or the taking by eminent domain of such use or control of the Nursing Home so as to render the Nursing Home unsatisfactory for its intended use for a period of at least 90 days.

Mandatory Redemption Upon Determination of Taxability

Upon the occurrence of a Determination of Taxability, the Bonds are subject to mandatory redemption, in whole, on the first day of the next succeeding month for which proper notice of redemption can be given, at a redemption price of par plus accrued interest to the date of redemption. A “Determination of Taxability” means the issuance of a statutory notice of deficiency by the Internal Revenue Service, or a ruling of the national office or any county office of the Internal Revenue Service, or a final decision of a court of competent jurisdiction which holds in effect that the interest payable on the Bonds is includable in the gross income of a holder thereof; if the period, if any, for contest or appeal of such action, ruling or decision by the County or any Bondholder has expired without such contest or appeal having been properly instituted by the County.

Sources and Uses of Funds

Table 2 below presents the sources and uses of funds for the Bonds.

Table 2
Sources and Uses of Funds of the Bonds

Sources of Funds

Par Amount	\$ 3,305,000.00
Premium	<u>161,244.95</u>
	<u>\$ 3,466,244.95</u>

Uses of Funds

Redemption of Refunded Bonds	\$ 3,365,000.00
Cost of Issuance/Underwriter's Discount ⁽¹⁾	97,340.03
Deposit to Debt Service Account	<u>\$ 3,904.92</u>
Total Uses of Funds	<u>\$ 3,466,244.95</u>

⁽¹⁾ Includes insurance premium of \$11,500.

Book-Entry Only System

The information contained in the following paragraphs of this subsection “Book-Entry-Only ISSUANCE” has been extracted from a schedule prepared by Depository Trust Company (“DTC”) entitled “SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING DTC AND BOOK-ENTRY-ONLY ISSUANCE.” The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that the County believes to be reliable, but the County takes no responsibility for the accuracy thereof.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (the “Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the “Indirect Participants”). DTC has Standard & Poor’s rating: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (the “Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co., nor any other DTC nominee, will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the Record Date identified in a listing attached to the Omnibus Proxy.

Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, Agent, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the County or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to Tender/Remarketing Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to Tender/Remarketing Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to Tender/Remarketing Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the County or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the County believes to be reliable, but the County takes no responsibility for the accuracy thereof.

Continuing Disclosure

In order to assist the Underwriters in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (the "Rule"), the County shall covenant pursuant to a Resolution adopted by the Governing Body to enter into an undertaking (the "Undertaking") for the benefit of holders of the Bonds to provide the County's Audited Financial Statements and other financial information and operating data (the "Annual Report") on or before twelve (12) months after the end of each fiscal year commencing with the fiscal year ended December 31, 2018, and to provide notices of the occurrence of certain events enumerated in the Rule to the MSRB. The details and terms of the Undertaking, as well as the information to be contained in the Annual Report or the notices of material events are set forth in the Form of Continuing Disclosure Certificate (the "Certificate") to be executed and delivered by the County at the time the Bonds are delivered. Such Certificate will be in substantially the form attached hereto as Appendix C.

Within the past years the County has never failed to comply in all material respects with its prior Undertakings under the Rule. A failure by the County to comply with the Undertakings will not constitute an event of default on the Bonds (although holders will have any available remedy at law or in equity). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

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THE COUNTY

The County, located in north central Minnesota, covers an area of approximately 3,200 square miles, which includes 77 full and fractional congressional townships. Its population according to the 2010 Federal census was 45,199 and the estimated population in 2017 was 45,237. The county seat is the City of Grand Rapids. The County is the fourth largest geographically of Minnesota's 87 counties and has the twenty-first largest population.

Organization and Administration

The County was organized in 1849, and has ever since continued in existence as a county governed by the general laws of the State of Minnesota. The County has been established as an organized County having the powers, duties, and privileges granted counties by Minnesota Statutes, Chapter 373.

The County is governed by the Board of County Commissioners, which include five members elected to four-year terms. The County Auditor/Treasurer, Sheriff, Recorder, and Attorney are also elected to four-year terms. Regular meetings are held at the County Courthouse on the second and fourth Tuesdays of each month. The tables below present the current Board of Commissioners and other County Officials.

BOARD OF COUNTY COMMISSIONERS

<u>Name</u>	<u>Position</u>	<u>Expiration of Current Term</u>
Davin Tinquist	<i>Chair</i>	12/31/2022
Leo Trunt	<i>Commissioner</i>	12/31/2022
Ben DeNucci	<i>Commissioner</i>	12/31/2022
Burl Ives	<i>Commissioner</i>	12/31/2020
Terry Snyder	<i>Commissioner</i>	12/31/2020

ADMINISTRATION

<u>Name</u>	<u>Position</u>
Jeffrey Walker	<i>County Auditor/Treasurer</i>
Matti Adam	<i>County Attorney</i>
Brett Skyles	<i>County Administrator</i>
Vic Williams	<i>County Sheriff</i>

Area Economy

A major element of the local economy is forestry and its related products and activities. UPM Kymmene Blandin Paper Mill, one of the County's largest employers, operates a large paper mill with 187,876 acres of forest land classified as "commercial timberland".

The County is also the home of All Season Vehicles, Inc. (now owned by Terex Corporations), and several state education and governmental agencies. Many resorts in the area contribute heavily to the local economy. County, State and National Forests, including the regional headquarters for the Minnesota Department of Natural Resources are located within the County.

The tourism industry with its numerous resorts, motels and campgrounds in the area contributes heavily to the local economy. There are more than 100 resorts, motels, campground and bed & breakfasts located in the County. The tourism industry fits well with another major element of the economy - forestry and its related products and activities.

The Blandin Foundation is also headquartered in the County, providing grant programs of \$15 million per year to strengthen rural Minnesota communities. Other local industries include mineral processing and agriculture. Grand

Rapids has continued to see sustained growth in both housing and retail development. Target Stores, Inc. completed a \$5.5 million renovation and 40,000 square-foot expansion of its Grand Rapids store. Wal-Mart Stores, Inc. completed construction of a new \$12 million, 188,000 square foot Walmart Supercenter store along Highway 169 in Grand Rapids. The 95,000 square-foot former Walmart store was purchased, renovated, and opened in February 2009 as an L&M Fleet Supply store.

Education

Four school districts with 20 elementary, junior and senior high schools, five private/parochial schools and two community colleges are located within the County.

Public Education

The County is the home of four school districts: Grand Rapids Public School District No. 318 with 4,149 students; Greenway ISD No. 316, with 1,067 students; Deer River ISD No. 317, with 971 students; and Nashwauk-Keewatin ISD No. 319, with 610 students.

Community Colleges

Itasca Community College is located in Grand Rapids and serves more than 1,250 students with a faculty of 40 and an average class size of 24 students. The College also uses its Continued Learning Center to provide the community with customized training, a downtown state-of-the-art computer lab, community education courses, College For Kids, and SeniorNet. Adjacent to the College is the University of Minnesota North Central Research and Outreach Center. The center is characterized by the diversity of its research activities.

Hibbing Technical College is located in Hibbing. The University of Minnesota-Duluth Campus and the College of St. Scholastica provide additional extension classes in Hibbing.

Universities

Nearby Bemidji State University and the University of Minnesota-Duluth offer a variety of bachelor's and master's degree programs which include engineering, computer science, industrial safety, business, and education.

Defined Benefits Pension Plan

Plan Description

The County participates in the following defined benefit pension plans administered by Public Employees' Retirement Association of Minnesota ("PERA"). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan - All full-time and certain part-time employees of the County are covered by the General Employees Plan, except those covered by the Police and Fire Plan or the Correctional Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Public Employees Police and Fire Plan - The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999 the Police and Fire Plan also covered police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to PERA.

Local Government Correctional Plan - The Correctional Plan was established for correctional officers serving in county and regional corrections facilities. Eligible participants must be responsible for the security, custody, and control of the facilities and their inmates.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent increases.

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.

General Employees Plan Benefits - General Employees Plan 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 PERA's Coordinated and Basic Plan members. The retiring member received 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% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years of service and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For 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.

Police and Fire Plan Benefits - Benefits for Police and Fire Plan members first hired after June 30, 2010 but before July 1, 2014 vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014 vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3.0% of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989 a full annuity is available when age plus years of service equal at least 90.

Correctional Plan Benefits - Benefits for Correctional Plan members first hired after June 30, 2010, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. The annuity accrual rate is 1.9 percent of average salary for each year of service in that plan. For Correctional Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Employees Fund Contributions - Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2017. The County was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The County's contributions to the General Employees Fund for the year ended December 31, 2017 were \$1,574,355. The County's contributions were equal to the required contributions as set by state statute.

Police and Fire Fund Contributions – Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2017. The County was required to contribute 16.20% of pay for members in calendar year 2017. The County's contributions to the Police and Fire Fund for the year ended December 31, 2017 were \$586,451. The County's contributions were equal to the required contributions as set by state statute.

Correctional Fund Contributions - In calendar year 2017 plan members were required to contribute 5.83% of their annual covered salary. The County was required to contribute 8.75% of pay for plan members in calendar year 2017. The County's contributions to the Correctional Fund for the year ended December 31, 2017 were \$105,675. The County's contributions were equal to the required contributions as set by state statute.

Pension Costs

General Employees Fund Pension Costs - At December 31, 2017, the County reported a liability of \$26,691,229 for its proportionate share of the General Employees Fund's net pension liability, of which \$5,024,157 was the Nursing Home's portion as of September 30, 2017. The County's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the County totaled \$335,657, of which \$63,177 was the Nursing Home's portion. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.3394% which was an increase of 0.0050% from its proportion measured as of June 30, 2016. The Nursing Home's proportion was 0.0787% which was a decrease of 0.003% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the County recognized pension expense of \$3,641,256 for its proportionate share of the General Employees Plan's pension expense, of which \$723,000 was the Nursing Home's expense. In addition, the County recognized an additional \$9,870 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund, of which \$2,000 was the Nursing Home's expense (and grant revenue).

Police and Fire Fund Pension Costs - At December 31, 2017, the County reported a liability of \$4,819,925 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County proportion was 0.3570% which was an increase of 0.018% from its proportion measured as of June 30, 2016. The County also recognized \$32,130 for the year ended December 31, 2017 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

For the year ended December 31, 2017, the County recognized pension expense of \$1,140,601 for its proportionate share of the PEPFF's pension expense.

Correctional Fund Pension Costs - At December 31, 2017, the County reported a liability of \$1,710,006 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.6% which was an increase of 0.03% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the County recognized a pension expense of \$650,285 for its proportionate share of the PECF's pension expense.

Total Pension Expense

The total pension expense for all plans recognized by Itasca County for the year ended December 31, 2017 was \$5,474,142.

For additional information on Pension Costs, Actuarial Assumptions, Discount Rate, Pension Liability Sensitivity, and Pension Plan Fiduciary Net Position, see Note 4 – "Defined Benefit Pension Plans" of the County's Audited Financial Statements for the year ended December 31, 2017 included in Appendix A herein.

Defined Contribution Plan

Four Board members of Itasca County are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minnesota Statutes, Chapter 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, Minnesota Statutes, Section 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00% 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% of employer contributions and 0.25% of the assets in each member account annually.

Total contributions made by the County during fiscal year 2017 were:

<u>Contribution Amount</u>		<u>% of Covered Payroll</u>		<u>Required</u>
<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	<u>Rate</u>
\$ 13,002	\$ 13,002	5.00%	5.00%	5.00%

Other Post-Employment Benefits

Plan Description and Funding Policy

Itasca County provides postemployment health insurance benefits for certain retired employees and their spouses under a single-employer defined benefit plan. The authority to provide these benefits is established by Minnesota Statutes Section 471.61 subdivision 2a. A separate report is not issued for the plan.

Road and Bridge and Courthouse employees who were hired prior to January 1, 2000, and meet the eligibility requirements established by PERA are eligible for employer-paid health insurance benefits. Itasca County will pay for 100% of the health insurance premiums of the employee and 50% of the health insurance premiums for the spouse for life. For Road and Bridge and Courthouse employees hired after January 1, 2000, the maximum County share for health insurance premiums is capped at \$20,000.

Health and Human Services and Attorney employees hired prior to January 1, 1994, and Sheriff's Office employees hired prior to January 1, 1998, who meet the eligibility requirements established by PERA are eligible for employer-paid health insurance benefits. Itasca County will pay for 100% of the health insurance premiums of the employee and 50% of the health insurance premiums for the spouse for life. For Health and Human Services and Attorney's employees hired after January 1, 1994, and Sheriff's Office employees hired after January 1, 1998, the maximum County share for health insurance premiums is capped at \$10,000. Attorney's employees must have ten years of County service to be eligible. After January 1, 2000, Sheriff's Office employees must also have 15 years of County service to be eligible.

Itasca County supervisory and confidential employees hired prior to December 22, 1995, who meet the eligibility requirements established by PERA and have ten years of service to Itasca County are eligible for employer-paid health insurance benefits. Itasca County will pay for 100% of the health insurance premiums of the employee and 50% of the health insurance premiums for the spouse for life. For supervisory and confidential employees hired after December 22, 1995, the maximum County share for health insurance premiums is capped at \$10,000.

Itasca Nursing Home employees who were hired before July 1, 1994, are continuously employed until retirement, have at least 15 years of service with the Nursing Home, have participated in the health care insurance program for 15 years prior to retirement, and have met the eligibility requirements of PERA, are eligible to receive hospital/medical benefits for life of the retiree or surviving spouse. The Itasca Nursing Home will pay 100% of the retiree's premium and 50% of the spouse's premium for these employees. For retirements after July 1, 1994, the retiree is responsible for 50% of the retiree's premium upon becoming eligible for Medicare and is solely responsible for the spouse's premium. Pre-Medicare retirees are responsible for 100% of the premium.

Employees who retire under contract provisions which limit the amount of benefit to a \$10,000 or \$20,000 cap or employees who do not qualify for the aforementioned benefits will be eligible to continue coverage with respect to both themselves and their eligible dependents under the County's health benefits program. These retirees are required to pay 100% of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, these retirees are receiving an implicit rate subsidy.

As of December 31, 2017, there were 258 retirees receiving health benefits from the County's health plan and 379 active employees covered under this plan. The cost of other postemployment benefits is funded on a "pay-as-you-go" method. OPEB liabilities are generally liquidated by the General Fund and applicable Special Revenue Funds.

Annual OPEB Cost and Net OPEB Obligation

The County's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost of 2017, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

<u>Description</u>	<u>Itasca County December 31, 2017</u>	<u>Itasca Nursing Home September 30, 2017</u>
ARC (Annual OPEB Cost)	\$ 2,426,497	\$ 48,066
Interest on net OPEB obligation	611,629	(16,498)
Adjustment to ARC	<u>(685,429)</u>	<u>19,162</u>
Annual OPEB Cost	\$ 2,352,697	\$ 50,730
Contributions during the year	<u>(2,206,870)</u>	<u>(31,739)</u>
Increase in net OPEB obligation	\$ 145,827	(18,991)
Net OPEB Obligation – Beginning of Year	<u>16,180,672</u>	<u>(412,466)</u>
Net OPEB Obligation – End of Year	<u>\$ 16,326,499</u>	<u>\$ (393,455)</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2017, 2016, and 2015 were as follows:

	<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contribution</u>	<u>% Contributed</u>	<u>Net Ending OPEB Obligation (Asset)</u>
Itasca County:	December 31, 2017	\$ 2,352,697	\$ 2,206,870	93.8%	\$ 16,326,499
	December 31, 2016	1,654,390	3,175,958	192.0%	16,180,672
	December 31, 2015	4,778,407	2,356,027	49.3%	17,702,240

	<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contribution</u>	<u>% Contributed</u>	<u>Net Ending OPEB Obligation (Asset)</u>
Nursing Home:	September 30, 2017	\$ 50,730	\$ 31,739	62.6%	\$ (393,455)
	September 30, 2016	43,647	121,537	278.5%	(412,446)
	September 30, 2015	43,340	113,087	260.9%	(334,556)

Funding Status

The County currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

Itasca County

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAA: as of % of Covered Payroll</u>
12/31/2016	--	\$44,361,148	\$44,361,148	-%	\$26,114,018	169.7%

Nursing Home

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAA: as of % of Covered Payroll</u>
09/30/2014	--	\$824,494	\$824,494	-%	\$4,865,927	16.9%

For additional information on Actuarial Methods and Assumptions, see Note 6 – “Postemployment Benefits” of the County’s Audited Financial Statements for the year ended December 31, 2017 included in Appendix A herein.

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ECONOMIC AND DEMOGRAPHIC INFORMATION

Population

Table 3 lists the population of the County for the last five decennial censuses, and the most recent estimate available published by the U.S. Census Bureau.

Table 3
Population

<u>Year</u>	<u>Itasca County</u>
2017 (Estimate)	45,237
2010	45,058
2000	43,992
1990	40,863
1980	43,069
1970	35,530

Source: United States Census Bureau, www.census.gov.

Labor Force and Unemployment Statistics

Table 4 lists the annual average labor force and unemployment rate for the County as compared to the unemployment rate for the State of Minnesota and the United States for the years 2014 through 2018, and the most recent monthly figure available for 2019. Information in this table has not been seasonally adjusted.

Table 4
Labor Force and Unemployment Statistics

	<u>Itasca County</u>		<u>State of Minnesota</u>	<u>United States</u>
	<u>Labor Force</u>	<u>Unemployment Rate</u>	<u>Unemployment Rate</u>	<u>Unemployment Rate</u>
2019 ⁽¹⁾	22,275	8.6%	4.3%	4.4%
2018	21,931	5.5%	2.9%	3.9%
2017	21,430	7.4%	3.4%	4.4%
2016	21,851	8.7%	3.9%	4.9%
2015	22,133	6.5%	3.7%	5.3%
2014	21,865	6.6%	4.2%	6.2%

⁽¹⁾ As of January, 2019.

Source: Minnesota Department of Employment and Economic Development, Local Area Unemployment Statistics, <http://mn.gov/deed>

Major Employers

Table 5 lists the largest employers in the County.

Table 5
Top 10 Employers

<u>Employer</u>	<u>Products/Services</u>	<u>Approximate Employees</u>
ISD No. 318 (Itasca County)	Elementary and Secondary Education	650
Grand Itasca Clinic & Hospital	Hospitals	526
Itasca County	Government Services	431
UPM Blandin	Paper-Manufacturers	250
Boswell Energy Ctr	Electric Companies	240
Essentia Health-Deer River	Hospitals	235
Arrowhead Promotion	Promotions & Fund Raising	220
Grand Village	Skilled Nursing Care Facilities	189
Walmart Supercenter	Department Stores	183
Bigfork Valley Hospital	Hospitals	176
White Oak Casino	Casinos	175
City of Grand Rapids	Government Services	148

Source: Infosource/ReferenceUSA.

Housing and Income Statistics

Table 6 below presents key housing and income statistics for Itasca County as compared with the State of Minnesota.

Table 6
Housing and Income Statistics

	<u>Itasca County</u>	<u>State of Minnesota</u>
Median Value of Home	\$ 156,100	\$ 199,700
Median Household Income	\$ 52,050	\$ 65,699
Per Capita Personal Income		
2017	\$ 40,225	\$ 54,359
2016	39,619	52,735
2015	39,858	51,929

Source: U.S. Census Bureau, American Community Survey 5-Year Estimates 2017, <http://www.census.gov>
U.S. Bureau of Economic Analysis, Personal Income and Employment, <http://www.bea.gov>

FINANCIAL SUMMARY

(This summary is subject in all respects to more complete information contained in this Official Statement)

Economic Market Value (2018/19)	\$ 6,019,337,368
Estimated Market Value (2018/19)	\$ 5,815,540,700
Taxable Market Value (2018/19)	\$ 5,051,167,546
Adjusted Net Tax Capacity (2018/19)	\$ 62,648,082
General Obligation Debt Supported by Tax Levy	\$ 10,323,937
General Obligation Debt Supported by Revenues (Includes the Bonds)	\$ 9,420,000
Overlapping General Obligation Debt	\$ 138,390,049
Estimated Population of the County (2017)	45,237
Area	3,200 Square Miles

Debt Ratios:

	<u>Amount</u>	Per Capita <u>(45,237)</u>	% of Economic <u>Market Value</u>
General Obligation Debt-Levy	\$ 10,323,937	\$ 228	0.17%
General Obligation Debt-Revenue	9,420,000	208	0.16%
Overlapping Debt	<u>138,390,049</u>	<u>3,059</u>	<u>2.30%</u>
Total	<u>\$ 158,133,986</u>	<u>\$ 3,495</u>	<u>2.63%</u>

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INDEBTEDNESS

General Obligation Long-Term Debt

Table 7 below, summarizes the County's general obligation long-term debt outstanding as of the issuance of the Bonds. Table 8 on this page and Table 9 on the following page presents the annual maturity schedule for those outstanding bonds.

Table 7
General Obligation Long-Term Debt by Issue

<u>Date of Issue</u>	<u>Purpose</u>	<u>Original Amount</u>	<u>Interest Rate Outstanding</u>	<u>Maturities Outstanding</u>	<u>Principal Outstanding</u>
Debt Supported by Tax Levy					
03/01/11	Capital Improvement (QECB), 2011	\$ 3,690,000	5.40%	02/01/26	\$ 1,513,937 ⁽¹⁾
08/05/15	Capital Improvement Refunding, 2015B	2,070,000	4.00%	02/01/21-23	2,070,000
06/15/17	Capital Improvement and Refunding, 2017A	8,015,000	3.00-5.00%	02/01/20-28	<u>6,740,000</u>
Total Debt Supported by Tax Levy					<u>\$ 10,323,937</u>
Debt Supported by Nursing Home Revenues					
10/01/09	Taxable Nursing Home Revenue, 2009A	\$ 4,605,000	4.65%-5.75%	02/01/20-31	\$ -- ⁽²⁾
10/01/09	Taxable Nursing Home Revenue, 2009B	1,490,000	6.00%	02/01/32-35	1,490,000
07/01/14	Nursing Home Revenue Refunding, 2014	3,335,000	2.00%-3.60%	02/01/20-32	2,575,000
08/05/15	Nursing Home Revenue, 2015A	2,350,000	1.60%-3.60%	02/01/20-36	2,050,000
5/7/2019	Nursing Home Revenue Refunding, 2019A	3,305,000	3.00%	02/01/20-31	<u>3,305,000</u>
Total Debt Supported by Revenues					<u>\$ 9,420,000</u>
Total General Obligation Debt					<u>\$ 19,743,937</u>

(1) The County is making annual deposits to a sinking fund. Based on current amounts in the sinking fund the remaining annual deposits will need to be \$216,217 per year.

(2) The 2020 through 2031 maturities are being refunded on a current refunding basis, and defeased by the Series 2019A Bonds. Therefore, those maturities have not been included in the outstanding debt calculation.

Table 8
General Obligation Levy Supported Debt
Annual Maturity Schedule

<u>Fiscal Year</u>	<u>Principal⁽¹⁾</u>	<u>Interest⁽²⁾</u>	<u>Total Debt Service</u>
<u>Ending December 31</u>			
2019	\$ --	\$ 272,030	\$ 272,030
2020	1,121,277	530,485	1,651,762
2021	1,636,277	488,510	2,124,787
2022	1,971,277	420,185	2,391,462
2023	2,021,277	339,085	2,360,362
2024	761,277	284,285	1,045,562
2025	786,277	262,110	1,048,387
2026	801,277	145,155	946,432
2027	605,000	27,675	632,675
2028	<u>620,000</u>	<u>9,300</u>	<u>629,300</u>
Total	<u>\$ 10,323,937</u>	<u>\$ 2,778,820</u>	<u>\$ 13,102,757</u>

(1) Reflects sinking fund payments made as of February, 2019.

(2) Does not reflect IRS subsidy payments in connection with the Series 2011A Bonds.

Table 9
General Obligation Nursing Home Revenue Debt
Annual Maturity Schedule

Fiscal Year Ending December 31	Outstanding Debt		The Bonds		Total Debt Service
	Principal	Interest ⁽¹⁾	Principal	Interest	
2019	\$ -	\$ 113,696	\$ --	\$ --	\$ 113,696
2020	270,000	224,893	180,000	119,585	794,478
2021	275,000	219,643	220,000	90,450	805,093
2022	275,000	213,968	235,000	83,625	807,593
2023	280,000	207,293	240,000	76,500	803,793
2024	290,000	199,193	255,000	69,075	813,268
2025	300,000	190,343	265,000	61,275	816,618
2026	305,000	181,268	280,000	53,100	819,368
2027	320,000	171,893	290,000	44,550	826,443
2028	325,000	162,115	310,000	35,550	832,665
2029	335,000	151,844	325,000	26,025	837,869
2030	345,000	140,935	345,000	15,975	846,910
2031	355,000	129,190	360,000	5,400	849,590
2032	710,000	106,470	--	--	816,470
2033	500,000	76,560	--	--	576,560
2034	525,000	49,170	--	--	574,170
2035	550,000	20,340	--	--	570,340
2036	<u>155,000</u>	<u>2,790</u>	<u>--</u>	<u>--</u>	<u>157,790</u>
Total	<u>\$ 6,115,000</u>	<u>\$ 2,561,600</u>	<u>\$ 3,305,000</u>	<u>\$ 681,110</u>	<u>\$ 12,662,710</u>

⁽¹⁾ Interest calculation does not reflect subsidy payments from the IRS in connection with the Series 2009A and 2009B Bonds.

Future Financing

The County does not anticipate that it will issue general obligation debt within the next six months.

Debt Limit

The statutory limit on “net debt” of any County, according to Minnesota Statutes, Sec. 475.53, is three percent of the estimated market value of taxable property in the municipality. “Net debt” is the amount of debt issued by the County remaining after deducting from the gross debt certain types of debt including, but not limited to, obligations issued to finance any public revenue producing convenience. The County’s legal debt margin is calculated in Table 8 below.

Table 10
Debt Limit

Estimated Market Value (2018/19)	\$ 5,815,540,700
	<u>3.00%</u>
Total Debt Limit (100.00%)	\$ 174,466,221
General Obligation Debt (5.92%)	<u>10,323,937</u>
Legal Debt Limit Margin (94.08%)	<u>\$ 164,142,284</u>

Overlapping Debt

Listed below are taxing jurisdictions which overlap the County and which had general obligation debt. Table 11 sets forth the general obligation debt as of March 1, 2019 for each of these jurisdictions and the amount of that debt allocable to the County.

Table 11
Overlapping Debt

<u>Entity</u>	<u>General Obligation Debt Outstanding⁽¹⁾</u>	<u>% Applicable to the County</u>	<u>\$ Allocable to the County</u>
Townships:			
Balsam	\$ 238,148	100.00%	\$ 238,148
Deer River	399,500	100.00%	399,500
Nashwauk	133,961	100.00%	133,961
Cities:			
Coleraine	\$ 1,110,000	100.00%	\$ 1,110,000
Deer River	228,000 ⁽¹⁾	100.00%	228,000
Grand Rapids	8,800,000 ⁽¹⁾	100.00%	8,800,000
Marble	249,000	100.00%	249,000
Nashwauk	320,000	100.00%	320,000
Squaw Lake	85,690	100.00%	85,690
School Districts:			
Blackduck ISD No. 32	\$ 4,395,000 ⁽¹⁾	1.60%	\$ 70,320
Greenway ISD No. 316	16,220,000 ⁽¹⁾	100.00%	16,220,000
Deer River ISD No. 317	16,030,000 ⁽¹⁾	98.10%	15,725,430
Itasca County ISD No. 318	91,210,000 ⁽¹⁾	100.00%	91,210,000
Nashwauk-Keewatin ISD No. 319	<u>3,600,000⁽¹⁾</u>	100.00%	<u>3,600,000</u>
Total	<u>\$ 143,019,299</u>		<u>\$ 138,390,049</u>

⁽¹⁾ Excludes General Obligation debt payable from revenues, special assessments, and tax increment.

Source: EMMA and Itasca County.

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PROPERTY VALUATIONS AND TAXES

Property Valuations

The County Assessor, pursuant to State law, is responsible for the assessment of all taxable property located within a county. State law provides, with certain exceptions, that all taxable property is to be valued at its market value. All real property subject to taxation must be listed and shall be valued each year with reference to its value as of January 2. The assessor views and reappraises all parcels at maximum intervals of five years. Personal property subject to taxation must also be listed and assessed annually as of January 2.

With certain exemptions, all property is valued at its Estimated Market Value (“EMV”), which is the value the assessor determines to be the price the property to be fairly worth. Taxable Market Value (“TMV”) is EMV less certain exclusions, including the exclusions under the “This Old House” program for certain improvements made to homes over 45 years old and, for taxes payable in 2012 and thereafter, a homestead market value exclusion (“Homestead Exclusion”) for homesteads valued at under \$413,800. The Homestead Exclusion replaces the former residential homestead market value credit (“Homestead Credit”), which provided an offset of an amount of residential homeowner property taxes with a credit, which was reimbursed to the County by the State.

Net Tax Capacity (“NTC”) is the value upon which taxes are levied and collected. The NTC is computed by applying the class rate percentages specific to each type of property classification against the TMV. Class rate percentages vary depending on the type of property. The Table 12 shows the class rates for selected property types for taxes payable in 2019.

Table 12
Property Class Rates

<u>Type of Property</u>	<u>Pay 2019 Class Rates</u>
Residential Homestead	
First \$500,000 Taxable Market Value	1.00%
Over \$500,000 Taxable Market Value	1.25%
Commercial/Industrial	
First \$150,000 Taxable Market Value	1.50%
Over \$150,000 Taxable Market Value	2.00%
Non-Homestead Market Rate Apartments	1.25%

Neither the net tax capacity nor the market value may accurately represent what a property’s actual market value would be in the marketplace. By dividing the taxable market value used for tax purposes by the State Equalization Aid Review Committee’s (“EARC”) Sales Ratio for any particular year, an Economic Market Value can be calculated which approximates actual market value. The Economic Market Value replaces the Indicated Market Value which was previously calculated by dividing the TMV by the Sales Ratio. Sales ratios represent the relationship between the market value used for tax purposes and actual selling prices which were obtained in real estate transactions within a governmental unit in any particular year. The 2017 Sales Ratio for the County is 96.37%.

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Table 13 below presents the Economic Market Value, Estimated Market Value, Taxable Market Value and Net Tax Capacity of taxable property within the County for assessment year 2018/collection year 2019.

Table 13
Property Values

	<u>Economic Market Value⁽¹⁾</u>	<u>Estimated Market Value</u>	<u>Taxable Market Value</u>	<u>Adjusted Net Tax Capacity</u>
Itasca County				
Real Estate	\$ 5,614,233,268	\$ 5,410,436,600	\$ 5,051,167,546	\$ 57,833,066
Personal Property	405,104,100	405,104,100	404,982,811	8,009,304
Less: Captured tax capacity of Tax Increment Dist.	--	--	--	(427,579)
Less: 10% of 200 KV Transmission Lines	--	--	--	(51,967)
Less: Fiscal Disparity Contribution	--	--	--	(5,365,068)
Plus: Fiscal Disparity Distribution	-	-	-	2,650,326
Total	<u>\$ 6,019,337,368</u>	<u>\$ 5,815,540,700</u>	<u>\$ 5,456,150,357</u>	<u>\$ 62,648,082</u>

⁽¹⁾ Economic Market Value is calculated using the Estimated Market Value of real estate divided by the sales ratio plus the Estimated Market Value of personal property.

Source: Itasca County Auditor.

Table 14 below presents the Economic Market Value, Estimated Market Value, Taxable Market Value and the Tax Capacity for the current year and five prior years.

Table 14
Historical Property Values

<u>Assessment Year/ Collection Year</u>	<u>Economic Market Value</u>	<u>Sales Ratio</u>	<u>Estimated Market Value</u>	<u>Taxable Market Value</u>	<u>Adjusted Net Tax Capacity</u>
2018/19	\$ 6,019,337,368	96.37% ⁽¹⁾	\$ 5,815,540,700	\$ 5,051,167,546	\$ 62,648,082
2017/18	5,986,454,733	96.37%	5,784,373,394	5,430,421,991	62,792,680
2016/17	6,026,359,326	95.54%	5,775,189,800	5,440,611,147	62,554,144
2015/16	5,843,885,315	97.99%	5,733,756,826	5,401,334,226	61,656,181
2014/15	5,835,831,366	97.04%	5,672,454,200	5,341,392,400	60,667,463
2013/14	5,734,192,567	96.81%	5,557,051,700	5,229,481,300	58,764,437

⁽¹⁾ As of the date of this Official Statement, the 2018 Sales Ratio has not been published and, therefore, the 2017 Sales Ratio value is used as an estimate.

Source: Itasca County Auditor.

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Table 15 below presents the total Net Tax Capacity of real estate property within the County by the various types of property.

Table 15
Net Tax Capacity by Category
Assessment Year 2018/Collection Year 2019

<u>Real Estate Only</u>	<u>Net Tax Capacity</u>	<u>% of Total Net Tax Capacity</u>
Residential Homestead	\$ 34,344,242	59.38%
Agricultural	5,835,642	10.09%
Commercial and Industrial	6,637,786	11.48%
Public Utility	10,129,670	17.52%
Non-Homestead Residential	885,548	1.53%
Other	<u>178</u>	<u>0.00%</u>
Total	<u>\$ 57,833,066</u>	<u>100.00%</u>

Source: Itasca County Auditor.

Property Tax Levies and Collections

The tax year in Minnesota is January 1 to December 31. Taxes are collected by the County Treasurer. The sequence of events in the taxation of property begins with the certification of the property tax levy to the County Auditor by December 28. The County Auditor then calculates the tax capacity rates and spreads the taxes designed to meet these budget requirements. The resulting taxes on property are payable the following year. The due dates for taxes on real property are one-half on or before May 15 and one-half on or before September 15. The due dates for payment of personal property taxes are one-half on or before February 28 and one-half on or before June 30.

Penalties on unpaid taxes occur as follows: On May 16, unpaid property taxes (first one-half) are penalized at a rate of 3% on property classified as homestead and 7% on property classified as non-homestead. Thereafter, an additional 1% is charged on the 16th day of each month up to and including September 16 for both homestead and non-homestead property. On September 16 unpaid property taxes (second one-half) are penalized at a rate of 4% for both homestead and non-homestead property. Thereafter, an additional 2% on homestead property and 4% on non-homestead property is charged on the 16th day of each month up to and including December 16. An additional 2% penalty is charged on the first business day in January following the year in which the taxes were due. Interest is charged based on variable rates per annum, on the full amount of the taxes, penalties, and costs unpaid. Personal property tax not paid when due is penalized at a rate of 8%. Table 16 shows the County's tax levies and collections for collection years 2014 through 2019, and the gross and net levies for the current collection year.

Table 16
Tax Collections in the County

<u>Collection Year</u>	<u>Gross Levy</u>	<u>Net Levy</u>	<u>Collected First Year</u>		<u>Collected as of 12/31/18</u>	
			<u>Amount</u>	<u>% of Net Levy</u>	<u>Amount</u>	<u>% of Net Levy</u>
2019	\$38,630,146	\$38,630,146	In collection.....			
2018	37,006,463	37,006,463	\$36,097,641	97.54%	\$36,103,684	97.56%
2017	35,655,383	35,655,383	35,065,833	98.35%	35,119,578	98.50%
2016	33,774,045	33,774,045	33,114,700	98.05%	33,119,787	98.06%
2015	31,462,585	31,462,585	30,888,119	98.17%	31,119,121	98.91%
2014	29,808,853	29,808,853	29,223,732	98.04%	29,406,952	98.65%

Source: Itasca County Auditor.

Tax Rates

Table 17 shows the tax rates for County residents in in the City of Grand Rapids and its overlapping jurisdictions for the collection years 2015 through 2019.

Table 17
Tax Rates

	<u>2018/19</u>	<u>2017/18</u>	<u>2016/17</u>	<u>2015/16</u>	<u>2014/15</u>
Itasca County	64.844%	62.983%	60.129%	58.157%	55.038%
City of Grand Rapids	82.195%	82.733%	82.812%	79.275%	79.461%
ISD No. 318	29.182%	17.189%	17.757%	16.530%	16.618%
Other	<u>0.298%</u>	<u>0.254%</u>	<u>0.293%</u>	<u>0.296%</u>	<u>0.293%</u>
Total	<u>176.519%</u>	<u>162.641%</u>	<u>160.991%</u>	<u>154.258%</u>	<u>138.713%</u>

Source: Itasca County Auditor.

Principal Taxpayers

A list of the ten largest taxpaying parcels in the County with the highest net tax capacities on the 2018 assessment year is presented in Table 18 below.

Table 18
Principal Taxpayers

Taxpayer	<u>2018/19</u> <u>Net Tax Capacity</u>	<u>Percent of Total</u> <u>Net Tax Capacity⁽¹⁾</u>
Minnesota Power & Light Co	\$ 8,299,356	12.60%
Enbridge Energy LP	5,200,379	7.90%
Enbridge Pipelines	1,325,952	2.01%
Blandin Paper Company	1,139,796	1.73%
The Wisconsin Power Inc Sys	1,033,696	1.57%
Great Lakes Gas Trans Ltd PA	675,284	1.03%
Burlington Northern & Santa Fe	510,118	0.77%
Allete Inc	465,192	0.71%
Essar Steel Minnesota LLC	398,465	0.61%
ERP Iron Ore LLC	<u>359,747</u>	<u>0.55%</u>
Total	<u>\$ 19,407,985</u>	<u>29.48%</u>

⁽¹⁾ Based on the County's 2018/2019 Total Net Tax Capacity of \$65,842,370. The County's Total Net Tax Capacity includes real and personal property and is not adjusted for tax increment financing.

Source: Itasca County Auditor.

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FINANCIAL INFORMATION

Financial Statements

The County's financial statements are audited by the State Auditor (the "Auditor"). Copies of the County's audited financial statements are available upon request from PFM Financial Advisors LLC, the County's Municipal Advisor, or through the Electronic Municipal Market Access website as part of the County's annual continuing disclosure reports. See Appendix A for the County's audited financial statements for fiscal year ended December 31, 2017.

General Fund Budgets for Fiscal Year 2018 and 2019

The table below presents the County's budget summary for the General Fund for the 2018 and 2019 Fiscal Years.

Table 19
General Fund Budgets for Fiscal Year 2018 and 2019

Revenues	<u>2018 Adopted</u>	<u>2019 Adopted</u>
County Tax Levy	\$ 17,973,810	\$ 18,579,312
Fees/Charges	1,780,675	1,830,875
Grants	948,563	1,015,248
State Sources	4,668,461	4,300,000
Federal Sources	430,000	575,000
Local/Intergovernmental	1,149,852	1,175,357
Other Sources	<u>775,500</u>	<u>1,278,200</u>
Total Revenues	<u>\$ 27,726,861</u>	<u>\$ 28,753,992</u>
Expenditures		
General Government	\$ 11,688,096	\$ 11,926,712
Public Safety	11,926,108	13,181,848
Sanitation	1,678,603	1,803,983
Culture and Recreation	763,909	766,966
Conservation of Natural Resources	<u>3,038,752</u>	<u>3,325,861</u>
Total Expenditures	<u>\$ 29,095,468</u>	<u>\$ 31,005,370</u>

Source: Itasca County Auditor.

General Fund Results on a Cash Basis for Fiscal Year 2018

Table 20 below presents the County's results for the General Fund for fiscal year 2018 on a cash basis.

Table 20
Results of Operations on a Cash Basis for FY18

Balance on January 1	\$ 3,111,064
Receipts	36,167,674
Disbursements	<u>34,430,258</u>
Balance on December 31	<u>\$ 4,848,480</u>

Source: Itasca County Auditor.

Results of Operations

Statements of revenues and expenditures of the General Fund of the County have been compiled from the County's audited financial statements. They have been organized in such a manner as to facilitate year-to-year comparisons. Table 21 presents a statement of revenues and expenditures of the County's General Fund for the fiscal years ended December 31, 2015 through 2017.

Table 21
General Fund Revenues and Expenditures and Changes in Fund Balance
(Years Ended December 31)

Revenues	<u>2017</u>	<u>2016</u>	<u>2015</u>
Taxes	\$ 17,425,097	\$ 16,820,307	\$ 14,575,853
Licenses and Permits	76,866	88,317	95,123
Intergovernmental	7,473,421	7,340,100	7,058,662
Charges for Services	1,265,263	1,099,646	988,947
Fines and Forfeits	49,114	65,194	58,175
Gifts and Contributions	208,016	200,894	221,799
Investment Income	374,407	311,212	499,846
Miscellaneous	<u>1,384,456</u>	<u>1,264,165</u>	<u>1,096,906</u>
Total Revenues	<u>\$ 28,256,640</u>	<u>\$ 27,189,835</u>	<u>\$ 24,595,311</u>
Expenditures			
Current			
General Government	\$ 13,669,579	\$ 10,601,653	\$ 11,421,946
Public Safety	13,810,662	13,089,204	12,816,211
Highways and Streets	756,684	813,277	811,891
Sanitation	67,221	84,098	117,636
Culture and Recreation	122,776	372,051	513,047
Conservation of Natural Resources	991,877	839,442	650,210
Capital Outlay			
General Government	181,893	178,480	273,143
Public Safety	245,310	98,075	175,497
Conservation of Natural Resources	<u>-</u>	<u>20,923</u>	<u>13,600</u>
Total Expenditures	<u>\$ 29,846,002</u>	<u>\$ 26,097,203</u>	<u>\$ 26,793,181</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	<u>\$ (1,589,362)</u>	<u>\$ 1,092,632</u>	<u>\$ (2,197,870)</u>
Other Financing Sources (Uses)			
Total Other Financing Sources (Uses)	<u>\$ (143,287)</u>	<u>\$ 698,449</u>	<u>\$ 2,390,411</u>
Net Change in Fund Balance	<u>\$ (1,732,649)</u>	<u>\$ 1,791,081</u>	<u>\$ 192,541</u>
Fund Balance, Beginning	<u>5,168,395</u>	<u>3,377,314</u>	<u>3,184,773</u>
Fund Balance, Ending	<u>\$ 3,435,746</u>	<u>\$ 5,168,395</u>	<u>\$ 3,377,314</u>

Source: The County's Audited Financial Statements for the fiscal years ended December 31, 2015 through 2017.

MUNICIPAL ADVISOR

The County has retained PFM Financial Advisors LLC, of Minneapolis, Minnesota, as Municipal Advisor (the “Municipal Advisor”) in connection with the issuance of the Bonds. In preparing the Official Statement, the Municipal Advisor has relied upon governmental officials, and other sources, who have access to relevant data to provide accurate information for the Official Statement, and the Municipal Advisor has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. The Municipal Advisor is not a public accounting firm and has not been engaged by the County to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards. The Municipal Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities and therefore will not participate in the underwriting of the Bonds.

Requests for information concerning the County should be addressed to PFM Financial Advisors LLC, 50 South Sixth Street, Suite 2250, Minneapolis, Minnesota 55402 (612/338-3535, 612/338-7264 FAX).

RATINGS

Moody’s Investors Service (“Moody’s”) has issued an underlying rating of “A1” to the Bonds. Additionally, an enhanced rating of “AA” was assigned to the Bonds by S&P Global Ratings (“S&P”) based on the additional security provided by an insurance policy to be issued concurrently with the delivery of the Bonds by Build America Mutual Assurance Company. A bond rating is subject to change or withdrawal by a rating agency at any time. Therefore, after the date hereof investors should not assume that such rating is still in effect. A revision or withdrawal of a rating may have an adverse effect on the market price and marketability of the Bonds.

TAX DISCLOSURE

Tax Exemption and Related Considerations

The following is a summary of certain U.S. federal and Minnesota income tax considerations relating to the purchase, ownership, and disposition of the Bonds. This summary is based on the U.S. Internal Revenue Code of 1986 (the “Code”) and the Treasury Regulations promulgated thereunder, judicial decisions, and published rulings and administrative pronouncements of the Internal Revenue Service (the “IRS”), all as of the date hereof and all of which are subject to change, possibly with retroactive effect. Any such change could adversely affect the matters discussed below, including the tax exemption of interest on the Bonds. The County has not sought and will not seek any rulings from the IRS regarding the matters discussed below, and there can be no assurance the IRS or a court will not take a contrary position regarding these matters.

This summary is for general information only and is not intended to constitute a complete analysis of all tax considerations relating to the purchase, ownership, and disposition of Bonds. It does not address the U.S. federal estate and gift tax or any state, local, or non-U.S. tax consequences except with respect to Minnesota income tax to the extent specified herein. This summary is limited to consequences to U.S. holders that purchase the Bonds for cash at original issue and hold the Bonds as “capital assets” (generally, property held for investment).

This discussion does not address all aspects of U.S. federal income or state taxation that may be relevant to particular holders of Bonds in light of their specific circumstances or the tax considerations applicable to holders that may be subject to special income tax rules, such as: holders subject to special tax accounting rules under Section 451(b) of the Code; insurance companies; brokers, dealers, or traders in stocks, securities, or currencies or notional principal

contracts; foreign corporations subject to the branch profits tax; and S corporations, partnerships, or other pass-through entities or investors therein.

For purposes of this discussion, the “issue price” of a maturity of Bonds is the first price at which a substantial amount of Bonds of that maturity is sold for cash to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers.

Prospective purchasers of Bonds should consult their own tax advisors with respect to applicable federal, state, and local tax rules, and any pending or proposed legislation or regulatory or administrative actions, relating to the Bonds based on their own particular circumstances.

Tax Exempt Interest

In the opinion of Kennedy & Graven, Chartered, Bond Counsel, based on existing law and assuming the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (i) is excluded from gross income for federal income tax purposes, (ii) is not an item of tax preference for federal alternative minimum tax purposes, (iii) is excluded from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes, and (iv) is not an item of tax preference for Minnesota alternative minimum tax purposes. Interest on the Bonds is subject, however, to the Minnesota franchise tax imposed on corporations and financial institutions measured by income.

The Code establishes certain requirements that must be met after the issuance of the Bonds in order that interest on the Bonds be excluded from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts. These requirements include, but are not limited to, provisions regarding the use of Bond proceeds and the facilities financed or refinanced with such proceeds and restrictions on the investment of Bond proceeds and other amounts. The County has made certain representations and has covenanted to comply with certain restrictions, conditions, and requirements designed to ensure interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or noncompliance with these covenants may cause interest on the Bonds to be included in federal gross income or in Minnesota taxable net income retroactively to their date of issue. Bond Counsel has not independently verified the accuracy of these representations and will not verify the continuing compliance with these covenants. No provision has been made for redemption of or for an increase in the interest rate on the Bonds in the event that interest on the Bonds is included in federal gross income or in Minnesota taxable net income.

Bond Premium

The Bonds are being sold at a price greater than the principal amount payable on such Bonds at maturity. A holder that acquires a Bond for an amount in excess of its principal amount generally must, from time to time, reduce the holder’s federal and Minnesota tax bases for the Bond. Premium generally is amortized for federal income tax purposes and Minnesota income and franchise tax purposes on the basis of a bondholder’s constant yield to maturity or to certain call dates with semiannual compounding. Accordingly, holders who acquire Bonds at a premium might recognize taxable gain upon sale of the Bonds, even if such Bonds are sold for an amount equal to or less than their original cost. Amortized premium is not deductible for federal income tax purposes or for purposes of the Minnesota income tax applicable to individuals, estates, and trusts.

Related Tax Considerations

Section 86 of the Code and corresponding provisions of Minnesota law require recipients of certain social security and railroad retirement benefits to take interest in the Bonds into account in determining the taxability of such benefits.

Section 265(a) of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, and Minnesota law similarly denies a deduction for such interest in the case of individuals, estates, and trusts. In the case of a financial institution, no deduction is allowed under section 265(b) the Code for that portion of the holder's interest expense that is allocable to interest on tax-exempt obligations, such as the Bonds, unless the obligations are "qualified tax-exempt obligations." Indebtedness may be allocated to the Bonds for this purpose even though not directly traceable to the purchase of the Bonds. The Bonds will be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.

The ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may affect a holder's federal, state, or local tax liability in some additional circumstances. The nature and extent of these other tax consequences depends upon the particular tax status of the holder and the holder's other items of income or deduction.

Sale or Other Disposition

A holder will generally recognize gain or loss on the sale, exchange, redemption, retirement, or other disposition of a Bond equal to the difference between (i) the amount realized less amounts attributable to any accrued but unpaid stated interest and (ii) the holder's adjusted tax basis in the Bond. The amount realized includes the cash and the fair market value of any property received by the holder in exchange for the Bond. A holder's adjusted tax basis in a Bond generally will be equal to the amount that the holder paid for the Bond, increased by any accrued original issue discount with respect to the Bond and reduced by the amount of any amortized bond premium on the Bond. Except to the extent attributable to market discount (which will be taxable as ordinary income to the extent not previously included in income), any gain or loss will be capital gain or loss and will be long-term capital gain or loss if the holder held the Bond for more than one year. Long-term capital gains recognized by certain non-corporate persons, including individuals, generally are taxable at a reduced rate. The deductibility of capital losses is subject to significant limitations.

Information Reporting and Backup Withholding

Payments of interest on the Bonds (including any allocable bond premium or accrued original issue discount) and proceeds from the sale or other disposition of the Bonds generally will be reported to the IRS as required under applicable Treasury Regulations. Backup withholding will apply to these payments if the holder fails to provide an accurate taxpayer identification number and certification that it is not subject to backup withholding (generally on an IRS Form W-9) or otherwise fails to comply with the applicable backup withholding requirements. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against the holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS. Certain holders are exempt from information reporting. Potential holders should consult their own tax advisors regarding qualification for an exemption and the procedures for obtaining such an exemption.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The County designates the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, relating to the ability of financial institutions to deduct from income for Federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations. The County will also represent and covenant that it does not reasonably expect that it or any subordinate entities will issue tax-exempt obligations (other than private activity bonds, treating qualified 501(c)(3) bonds as not being private activity bonds) in an aggregate amount greater than \$10,000,000 in 2019.

LITIGATION

Except as noted below, there is not now pending or threatened any litigation seeking to restrain or enjoin the sale, issuance, execution or delivery of the Bonds, or in any manner questioning or affecting the validity of the Bonds, or the proceedings or authority pursuant to which the Bonds are to be issued and sold.

A settlement agreement has been entered into between Blandin Paper Company and the affected counties in the case of *UPM/Blandin Paper Company vs Aitkin, Itasca, Koochiching and St. Louis Counties*. The settlement agreement relieves Itasca County of any and all liability related to this tax petition.

CERTIFICATION

The County will furnish a statement to the effect that this Official Statement, to the best of its knowledge and belief as of the date of sale and the date of delivery, is true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading.

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Bonds are subject to the opinion of Kennedy & Graven, Chartered, Bond Counsel, as to validity and tax exemption. The opinion will be substantially in the form set forth in Appendix B attached hereto. Except as to the information contained under the captions "Security and Source of Payment" and "Tax Exemption and Related Tax Considerations," Bond Counsel has not been requested to, and has not undertaken to, verify the accuracy of the information contained in this Official Statement and expresses no opinion with respect thereto.

UNDERWRITER

On April 1, 2019, Baird Financial Corporation, the parent company of Baird, acquired HL Financial Services, LLC, its subsidiaries, affiliates and assigns (collectively "Hilliard Lyons"). As a result of such common control, Baird, Hilliard Lyons and Hilliard Lyons Trust Company are now affiliated. It is expected that Hilliard Lyons will merge with and into Baird later in 2019.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are set forth as such and are not representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract or agreement with the owners of any Bonds.

This Official Statement has been approved by the County for distribution by the County Auditor/Treasurer to prospective purchasers of the Bonds.

ITASCA COUNTY, MINNESOTA

By: Jeffery Walker
County Auditor/Treasurer

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APPENDIX A

**The County's Audited Financial Statements
for the Fiscal Year Ended December 31, 2017**

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GRAND RAPIDS, MINNESOTA
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GRAND RAPIDS, MINNESOTA
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GRAND RAPIDS, MINNESOTA
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INTRODUCTORY SECTION

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
ORGANIZATION
DECEMBER 31, 2017**

Office	Name	Term Expires
Commissioners		
1 st District	Davin Tinquist	December 2018
2 nd District	Terry Snyder*	December 2020
3 rd District	Leo Trunt	December 2018
4 th District	Burl Ives	December 2020
5 th District	Ben DeNucci	December 2018
Officers		
Elected		
Attorney	Jack J. Muhar	December 2018
Auditor/Treasurer	Jeffrey T. Walker	December 2018
Recorder	Nicolle Zuehlke	December 2018
Sheriff	Victor Williams	December 2018
Appointed		
Administrator	Brett Skyles	Indefinite
Assessor	Amber Peratalo	Indefinite
Coroner	Dr. Michael Baich	Indefinite
Emergency Management Director	Victor Williams	Indefinite
Highway Engineer	Karin Grandia	Indefinite
Health and Human Services Director	Eric Villeneuve	Indefinite
Surveyor	Guy Carlson	Indefinite
Veterans Service Officer	Hugh Quinn	Indefinite

* = Chair

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of County Commissioners
Itasca County
Grand Rapids, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Itasca County (the County), as of and for the year ended December 31, 2017, including the Nursing Home Enterprise Fund as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion.

Auditors' Responsibility (Continued)

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 Itasca County as of December 31, 2017, including the Nursing Home Enterprise Fund as of September 30, 2017, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress – other postemployment health care benefits, schedule of the proportionate share of the net pension liability, schedule of contributions, and notes to the required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Itasca County's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

Other Matters (Continued)

Supplementary Information (Continued)

The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2018, on our consideration of Itasca County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Itasca County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Itasca County's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Brainerd, Minnesota
September 30, 2018

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REQUIRED SUPPLEMENTARY INFORMATION

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

This section of the Itasca County (the County) annual financial report presents our discussion and analysis of the County's financial performance for the year that ended December 31, 2017. The management's discussion and analysis (MD&A) is required supplementary information specified in the Governmental Accounting Standards Board (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain comparative information between the current year, 2017, and the prior year, 2016, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- Governmental activities total net position is \$216,892,077, of which \$215,624,953 is the County's net investment in capital assets, and \$18,383,954 is restricted to specific purposes.
- Business-type activities total net position is \$7,040,720. The net investment in capital assets represents \$918,276 of the total.
- Itasca County's net position increased by \$390,758 for the year ended December 31, 2017.
- Overall governmental fund-level revenues totaled \$86,842,449 and were \$590,054 greater than expenditures primarily due to timing of funding and expenditures.
- The General Fund's fund balance decreased \$1,732,649 from the prior year as a result of transfers to the Forest Resources and Debt Service Funds. The total fund balance is \$3,435,746 of which \$714,986 is restricted to specific purposes.

OVERVIEW OF THE FINANCIAL STATEMENTS

- The financial section of the annual report consists of three parts – required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the County:
- The first two statements are government-wide financial statements which provide both short-term and long-term information about the County's overall financial status.
- The remaining statements are fund financial statements which focus on individual parts of the County, reporting the County's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how basic services such as general government, human services, and highways and streets were financed in the short-term as well as what remains for future spending.
 - The proprietary fund statements are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The County uses enterprise funds to account for the Nursing Home, Itasca Medical Center, and Itasca Resource Center. The County uses an internal service fund to account for the County's self-insurance program for worker's compensation.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

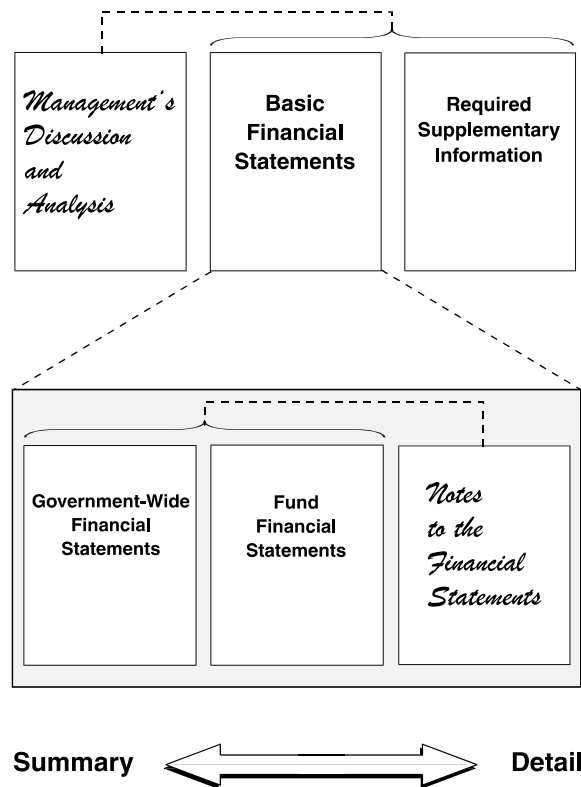
OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

- Fiduciary funds statements provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1
Annual Report Format**



**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-2 summarizes the major features of the County's financial statements, including the portion of the County's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2. Major Features of the County's Government-Wide and Fund Financial Statements				
Type of Statements	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire County's government (except fiduciary funds).	The activities of the County that are not proprietary or fiduciary.	The activities of the County that operate similar to private businesses.	Instances in which the County is the trustee or agent for someone else's resources.
Required financial statements	Statement of net position.	Balance sheet.	Statement of net position.	Statement of fiduciary net position.
	Statement of activities.	Statement of revenues, expenditures, and changes in fund balance.	Statement of revenues, expenses, and changes in fund net position Statement of cash flows.	Statement of changes in fiduciary net position.
Accounting basis and measurement focus	Full accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Full accrual accounting and economic resources focus.	Full accrual accounting and economic resources focus.
Type of asset and deferred outflows of resources/liability and deferred inflows of resources information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources both financial and capital, short-term and long-term.	Only assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter, no capital assets included.	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, and short-term and long-term.	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both short-term and long-term. Agency funds do not currently contain capital assets, although they can.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid.	All revenues and expenses during year, regardless of when cash is received or paid.

Government-Wide Statements

The government-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the County's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Statements (Continued)

The two government-wide statements report the County's net position and how it has changed. Net position – the difference between the County's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the County's financial health or position.

- Over time, increases or decreases in the County's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the County, you need to consider additional nonfinancial factors such as changes in the County's property tax base and the condition of county buildings and other facilities.

In the government-wide financial statements the County's activities are shown in two categories:

- Governmental activities – The County's basic services are included here. Property taxes and state aids finance most of these activities.
- Business-type activities –The County's Nursing Home, Itasca Medical Care, and Itasca Resource Center activities are reported here. Charges for services finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the County's funds – focusing on its most significant or "major" funds – not the County as a whole. Funds are accounting devices the County uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The County establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The County has three kinds of funds:

- Governmental Funds – The County's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide reconciliations that explain the relationship (or differences) between them.
- Proprietary Funds – The County maintains four proprietary funds. Proprietary funds are reported in the same way activities are reported in the statement of net position and the statement of activities. In fact, the County's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the County's other programs and activities, such as the County's Risk Management Fund.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

- **Fiduciary Funds** – The County is the fiscal agent, or fiduciary, for assets that belong to others. The County is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the County's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the government-wide financial statements because the County cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Position

Over time, net position serves as a useful indicator of the County's financial position. Itasca County's total net position was \$223,932,797 on December 31, 2017, an increase of \$390,758 from the prior year. The main reason for this decrease is due to a change in assumption for net pension liability and related deferred outflows of resources and deferred inflows of resources (see Table A-1).

Table A-1
The County's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 66,478,521	\$ 60,598,103	\$ 25,058,182	\$ 22,031,257	\$ 91,536,703	\$ 82,629,360
Capital Assets	224,475,236	220,596,147	11,313,276	12,005,029	235,788,512	232,601,176
Total Assets	290,953,757	281,194,250	36,371,458	34,036,286	327,325,215	315,230,536
Deferred Outflows of Resources	13,540,897	22,819,015	1,287,743	2,809,077	14,828,640	25,628,092
Current Liabilities	8,048,429	7,867,335	11,881,933	11,684,499	19,930,362	19,551,834
Long-Term Liabilities	65,540,223	73,879,485	17,787,986	17,419,948	83,328,209	91,299,433
Total Liabilities	73,588,652	81,746,820	29,669,919	29,104,447	103,258,571	110,851,267
Deferred Inflows of Resources	14,013,925	5,756,077	948,562	709,245	14,962,487	6,465,322
Net Position						
Net Investment in Capital Assets	215,624,953	210,843,150	918,276	1,170,029	216,543,229	212,013,179
Restricted	18,383,954	20,657,753	393,455	-	18,777,409	20,657,753
Unrestricted	(17,116,830)	(14,990,535)	5,728,989	5,861,642	(11,387,841)	(9,128,893)
Total Net Position	\$ 216,892,077	\$ 216,510,368	\$ 7,040,720	\$ 7,031,671	\$ 223,932,797	\$ 223,542,039

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

CHANGE IN NET POSITION

The government-wide total revenues were \$163,611,908 for the year ended December 31, 2017 (an increase of \$1,817,863). This increase is primarily attributable to an increase in property tax revenue in the governmental activities. Property taxes, operating grants and contributions, and capital grants and contributions accounted for 39.0% of total revenue for the year (see Table A-2).

Table A-2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
REVENUES						
<u>Program Revenues</u>						
Fines, Charges, Fines, and Other	\$ 12,323,241	\$ 14,585,999	\$ 78,301,128	\$ 74,438,102	\$ 90,624,369	\$ 89,024,101
Operating Grants and Contributions	17,361,467	16,805,620	-	-	17,361,467	16,805,620
Capital Grants and Contributions	9,014,015	10,578,089	-	-	9,014,015	10,578,089
<u>General Revenues</u>						
Property Taxes	37,353,148	35,879,685	-	-	37,353,148	35,879,685
Taxes - Other	1,604,532	1,819,544	-	-	1,604,532	1,819,544
Payments in Lieu of Taxes	1,550,973	1,676,112	-	-	1,550,973	1,676,112
Grants and Contributions Not Restricted to Specific Programs	5,040,682	5,336,195	31	-	5,040,713	5,336,195
Gifts and Contributions	12,466	13,246	58,778	6,978	71,244	20,224
Unrestricted Investment Earnings	491,588	430,435	13,960	8,185	505,548	438,620
Miscellaneous	485,899	115,049	-	90,330	485,899	205,379
Gain on Sale of Capital Assets	-	10,476	-	-	-	10,476
Total Revenues	85,238,011	87,250,450	78,373,897	74,543,595	163,611,908	161,794,045
EXPENSES						
General Government	15,192,760	11,693,992	-	-	15,192,760	11,693,992
Public Safety	15,021,948	15,819,869	-	-	15,021,948	15,819,869
Highways and Streets	19,622,408	23,918,509	-	-	19,622,408	23,918,509
Sanitation	1,893,199	1,991,053	-	-	1,893,199	1,991,053
Human Services	24,489,814	24,048,342	-	-	24,489,814	24,048,342
Health	2,598,920	2,450,118	-	-	2,598,920	2,450,118
Culture and Recreation	816,034	1,417,443	-	-	816,034	1,417,443
Conservation of Natural Resources	4,114,025	3,878,529	-	-	4,114,025	3,878,529
Economic Development	398,382	422,037	-	-	398,382	422,037
Interest on Long-Term Debt	708,812	423,172	-	-	708,812	423,172
Nursing Home	-	-	12,784,789	12,883,823	12,784,789	12,883,823
Itasca Resource Center	-	-	463,825	319,047	463,825	319,047
Itasca Medical Care	-	-	65,116,234	62,053,419	65,116,234	62,053,419
Total Expenses	84,856,302	86,063,064	78,364,848	75,256,289	163,221,150	161,319,353
EXCESS (DEFICIENCY) IN NET POSITION BEFORE TRANSFERS	381,709	1,187,386	9,049	(712,694)	390,758	474,692
Transfers	-	1,500	-	(1,500)	-	-
CHANGE IN NET POSITION	381,709	1,188,886	9,049	(714,194)	390,758	474,692
Net Position - Beginning of Year	216,510,368	215,321,482	7,031,671	7,745,865	223,542,039	223,067,347
NET POSITION - END OF YEAR	<u>\$ 216,892,077</u>	<u>\$ 216,510,368</u>	<u>\$ 7,040,720</u>	<u>\$ 7,031,671</u>	<u>\$ 223,932,797</u>	<u>\$ 223,542,039</u>

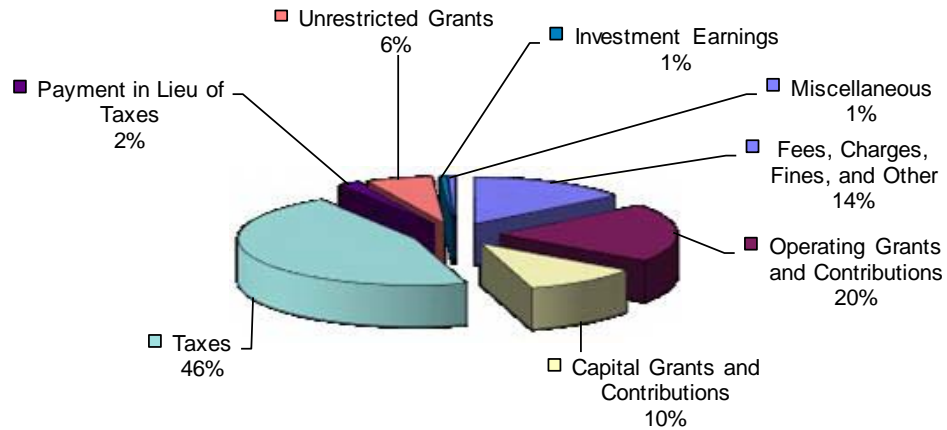
**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

CHANGE IN NET POSITION (CONTINUED)

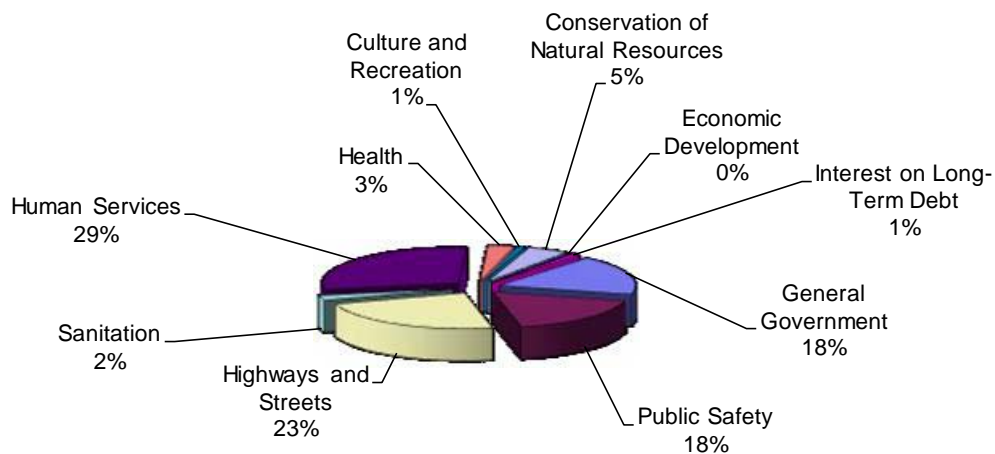
The government-wide cost of all governmental activities this year was \$84,856,302.

- Some of the cost was paid by the users of the County's programs (\$12,323,241).
- The federal and state governments subsidized certain programs with grants and contributions (\$26,375,482).
- The remainder of the County's governmental activities costs (\$46,157,579), however, was paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was covered by \$40,508,653 in property and other taxes, \$5,040,682 of state aid, and \$989,953 of investment earnings and other general revenues.

2017 Governmental Activities Revenues by Source



2017 Governmental Activities Expenses by Type



**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

CHANGE IN NET POSITION (CONTINUED)

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

Table A-3
Expenses and Net (Revenue) Cost of Services

	Total Cost of Services		Percentage	Net (Revenue) Cost of Services		Percentage
	2017	2016	Change	2017	2016	Change
GOVERNMENTAL ACTIVITIES						
General Government	\$ 15,192,760	\$ 11,693,992	29.9 %	\$ 12,724,098	\$ 9,285,259	37.0 %
Public Safety	15,021,948	15,819,869	(5.0)	12,708,984	13,565,213	(6.3)
Highways and Streets	19,622,408	23,918,509	(18.0)	5,176,995	7,752,987	(33.2)
Sanitation	1,893,199	1,991,053	(4.9)	(163,766)	(22,373)	(632.0)
Human Services	24,489,814	24,048,342	1.8	12,394,446	12,855,138	(3.6)
Health	2,598,920	2,450,118	6.1	1,068,214	950,472	12.4
Culture and Recreation	816,034	1,417,443	(42.4)	636,528	961,942	(33.8)
Conservation of Natural Resources	4,114,025	3,878,529	6.1	550,687	(1,686,344)	132.7
Economic Development	398,382	422,037	(5.6)	352,581	7,890	4368.7
Interest	708,812	423,172	67.5	708,812	423,172	67.5
Total	<u>\$ 84,856,302</u>	<u>\$ 86,063,064</u>	(1.4)	<u>\$ 46,157,579</u>	<u>\$ 44,093,356</u>	4.7
BUSINESS-TYPE ACTIVITIES						
Nursing Home	\$ 12,784,789	\$ 12,883,823	(0.8)	\$ 1,483,238	\$ 1,147,816	29.2
Itasca Resource Center	463,825	319,047	45.4	(78,805)	(183,534)	57.1
Itasca Medical Center	65,116,234	62,053,419	4.9	(1,340,713)	(146,095)	(817.7)
Total	<u>\$ 78,364,848</u>	<u>\$ 75,256,289</u>	4.1 %	<u>\$ 63,720</u>	<u>\$ 818,187</u>	(92.2)%

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL

The financial performance of the County, as a whole, is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance of \$49,918,867. Revenues for the County's governmental funds were \$86,842,449, while total expenditures were \$86,252,395.

The General Fund includes the primary operations of the County in providing services to citizens. Fund balance decreased by \$1,732,649 during 2017. This decrease is primarily due to transfers to the Forest Resources and Debt Service Funds.

The Road and Bridge Fund has a total fund balance of \$12,979,019. The fund balance increased \$1,347,774, before the increase in inventory, in 2017 primarily due to timing of project completion and revenues exceeding expenditures during the current year.

The Human Services Fund has a total fund balance of \$7,244,537. The fund balance increased \$79,682 in 2017 due to timing of intergovernmental revenues from the state and federal governments.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL (CONTINUED)

The Forfeited Tax Fund has a total fund balance of \$2,388,474. The fund balance increased \$11,474 in 2017 due to current year sales exceeding tax forfeiture expenditures.

The Capital Projects Fund has a total fund balance of \$7,015,832. The fund balance increased \$6,780,504 in 2017 due to the issuance of bonds in the current year for planned expenditures.

The Environmental Fund has a total fund balance of \$7,974,389. The fund balance decreased \$152,332 in 2017 due to planned expenditures.

The Nursing Home Enterprise Fund presented a deficit net position of \$1,053,043. This is a decrease of \$1,423,451 in 2017 mainly due to higher nursing service and personnel expenses than in the prior year.

Itasca Medical Care's net position increased \$1,353,664 in 2017, to a balance of \$7,053,771, as a result of higher capitation revenues than in the prior year.

General Fund Budgetary Highlights

Over the course of the year, the County did not revise the annual operating budget for the General Fund.

- Actual revenues were \$1,139,828 more than expected; this is primarily due to state grants being higher than anticipated.
- The actual expenditures were \$4,095,015 more than budget due primarily to severance expenditures being reported in the general fund that were not budgeted.

CAPITAL ASSETS

By the end of 2017, the County had invested approximately \$235,800,000 (net of accumulated depreciation) in a broad range of capital assets, including buildings, computers, equipment, and infrastructure (see Table A-4). (More detailed information about capital assets can be found in Note 3.A.3 to the financial statements). Total depreciation expense for the year was \$8,447,516.

Table A-4
The County's Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 1,552,478	\$ 1,490,739	\$ 279,296	\$ 279,296	\$ 1,831,774	\$ 1,770,035
Construction-in-Progress	1,437,445	663,979	-	-	1,437,445	663,979
Infrastructure	192,394,739	190,046,380	-	-	192,394,739	190,046,380
Buildings	17,975,591	18,780,363	10,032,940	10,641,993	28,008,531	29,422,356
Improvements	-	-	85,819	92,039	85,819	92,039
Machinery, Furniture, and Equipment	11,114,983	9,614,686	915,221	991,701	12,030,204	10,606,387
Total	<u>\$ 224,475,236</u>	<u>\$ 220,596,147</u>	<u>\$ 11,313,276</u>	<u>\$ 12,005,029</u>	<u>\$ 235,788,512</u>	<u>\$ 232,601,176</u>

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

LONG-TERM LIABILITIES

At year-end, the County had \$85,830,585 in long-term liabilities outstanding, including the current portion of long-term debt.

- The County's governmental activities total long-term liabilities decreased \$9,951,064 during the fiscal year, due primarily to the issuance of bonds.
- The County's business-type activities total debt increased by \$575,447 during the fiscal year, due primarily to regular scheduled debt payments.

Table A-5
The County's Long-Term Liabilities

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
General Obligation Bonds	\$ 13,775,000	\$ 9,880,000	\$ 5,245,000	\$ 5,425,000	\$ 19,020,000	\$ 15,305,000
General Obligation Revenue Bonds	-	-	5,150,000	5,410,000	5,150,000	5,410,000
Compensated Absences	6,337,992	6,105,680	246,078	-	6,584,070	6,105,680
Claims and Judgements Payable	610,576	215,149	4,918,280	4,966,949	5,528,856	5,182,098
Net Other Postemployment Benefits	16,326,499	16,180,672	-	-	16,326,499	16,180,672
Net Pension Liability	28,110,335	42,729,965	5,110,825	6,523,015	33,221,160	49,252,980
Provider Settlements	-	-	2,732,161	501,933	2,732,161	501,933
Total Long-Term Liabilities	<u>\$ 65,160,402</u>	<u>\$ 75,111,466</u>	<u>\$ 23,402,344</u>	<u>\$ 22,826,897</u>	<u>\$ 85,830,585</u>	<u>\$ 97,436,430</u>

FACTORS BEARING ON THE COUNTY'S FUTURE

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

- The County's expenditures for 2018 are budgeted to increase 2.81 percent from 2017.
- Property taxes levied have increased 3.55 percent for 2018.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Auditor/Treasurer, Jeffrey Walker, or the County's Accounting Manager, Gail Guck, Itasca County Courthouse, 123 N.E. 4th Street, Grand Rapids, Minnesota 55744.

BASIC FINANCIAL STATEMENTS

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

	Primary Government		
	Governmental	Business-Type	Total
ASSETS			
Cash and Investments	\$ 53,315,485	\$ 18,589,691	\$ 71,905,176
Property Taxes Receivable	1,145,850	-	1,145,850
Special Assessments Receivable	248,402	-	248,402
Accounts Receivable - Net	3,170,658	5,109,442	8,280,100
Accrued Interest Receivable	20,872	-	20,872
Loans Receivable	238,860	-	238,860
Due from Other Governments	5,925,249	6,510	5,931,759
Inventories	1,157,121	-	1,157,121
Prepaid Items	-	175,598	175,598
Restricted Assets			
Cash and Pooled Investments	1,256,024	-	1,256,024
Resident Trust Funds	-	8,740	8,740
Provider Settlements Receivable	-	774,746	774,746
Excess Other Postemployment Benefits Contributions	-	393,455	393,455
Capital Assets			
Nondepreciable	2,989,923	279,296	3,269,219
Depreciable (Net of Accumulated Depreciation)	221,485,313	11,033,980	232,519,293
Total Assets	<u>290,953,757</u>	<u>36,371,458</u>	<u>327,325,215</u>
DEFERRED OUTFLOWS OF RESOURCES			
Refunding Deferred Charge on Bonds	52,190	-	52,190
Pension Related	13,488,707	1,287,743	14,776,450
Total Deferred Outflows of Resources	<u>13,540,897</u>	<u>1,287,743</u>	<u>14,828,640</u>
LIABILITIES			
Accounts Payable	3,478,932	1,262,752	4,741,684
Salaries Payable	823,057	371,729	1,194,786
Contracts Payable	147,214	-	147,214
Escheat Property Payable	4,972	-	4,972
Due to Residents	-	8,740	8,740
Due to Other Governments	2,910,751	498	2,911,249
Accrued Interest Payable	274,600	72,588	347,188
Unearned Revenue	-	4,551,268	4,551,268
Compensated Absences Payable - Due Within One Year	3,903	246,078	249,981
Claims and Judgments Payable - Due Within One Year	-	4,918,280	4,918,280
Bonds Payable - Due Within One Year	405,000	450,000	855,000
Compensated Absences Payable - Due in More than One Year	6,334,089	-	6,334,089
Claims and Judgments Payable - Due in More than One Year	610,576	-	610,576
Bonds Payable - Due in More than One Year	14,158,724	9,945,000	24,103,724
Provider Settlements- Due in More than One Year	-	2,732,161	2,732,161
Net Other Postemployment Benefit Obligation - Due in More than One Year	16,326,499	-	16,326,499
Net Pension Liability - Due in More than One Year	28,110,335	5,110,825	33,221,160
Total Liabilities	<u>73,588,652</u>	<u>29,669,919</u>	<u>103,258,571</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Related	12,846,602	948,562	13,795,164
Property Taxes Levied for Subsequent Year	1,167,323	-	1,167,323
Total Deferred Inflows of Resources	<u>14,013,925</u>	<u>948,562</u>	<u>14,962,487</u>
NET POSITION			
Net Investment in Capital Assets	215,624,953	918,276	216,543,229
Restricted For			
General Government	1,354,581	-	1,354,581
Public Safety	714,986	-	714,986
Highways and Streets	1,002,197	-	1,002,197
Health	906,231	393,455	1,299,686
Debt Service	617,488	-	617,488
Conservation of Natural Resources	5,814,082	-	5,814,082
Environmental Uses - Expendable	446,970	-	446,970
Environmental Uses - Nonexpendable	7,527,419	-	7,527,419
Unrestricted	(17,116,830)	5,728,989	(11,387,841)
Total Net Position	<u>\$ 216,892,077</u>	<u>\$ 7,040,720</u>	<u>\$ 223,932,797</u>

See accompanying Notes to Financial Statements.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017**

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
General Government	\$ 15,192,760	\$ 1,905,980	\$ 562,682	\$ -
Public Safety	15,021,948	751,529	1,561,435	-
Highways and Streets	19,622,408	1,540,064	3,891,334	9,014,015
Sanitation	1,893,199	1,924,582	132,383	-
Human Services	24,489,814	2,831,528	9,263,840	-
Health	2,598,920	832,526	698,180	-
Culture and Recreation	816,034	29,506	150,000	-
Conservation of Natural Resources	4,114,025	2,507,526	1,055,812	-
Economic Development	398,382	-	45,801	-
Interest	708,812	-	-	-
Total Governmental Activities	84,856,302	12,323,241	17,361,467	9,014,015
BUSINESS-TYPE ACTIVITIES				
Nursing Home	12,784,789	11,301,551	-	-
Itasca Resource Center	463,825	542,630	-	-
Itasca Medical Care	65,116,234	66,456,947	-	-
Total Business-Type Activities	78,364,848	78,301,128	-	-
Total Primary Government	\$ 163,221,150	\$ 90,624,369	\$ 17,361,467	\$ 9,014,015

GENERAL REVENUES

General Property Taxes
Taxes - Other
Payments in Lieu of Taxes
Grants and Contributions not Restricted to Specific Programs
Gifts and Contributions
Unrestricted Investment Earnings
Miscellaneous
Total General Revenues and Transfers

CHANGE IN NET POSITION

Net Position - Beginning of Year

NET POSITION - END OF YEAR

See accompanying Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-Type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (12,724,098)	\$ -	\$ (12,724,098)
(12,708,984)	-	(12,708,984)
(5,176,995)	-	(5,176,995)
163,766	-	163,766
(12,394,446)	-	(12,394,446)
(1,068,214)	-	(1,068,214)
(636,528)	-	(636,528)
(550,687)	-	(550,687)
(352,581)	-	(352,581)
(708,812)	-	(708,812)
(46,157,579)	-	(46,157,579)
-	(1,483,238)	(1,483,238)
-	78,805	78,805
-	1,340,713	1,340,713
-	(63,720)	(63,720)
(46,157,579)	(63,720)	(46,221,299)
37,353,148	-	37,353,148
1,604,532	-	1,604,532
1,550,973	-	1,550,973
5,040,682	31	5,040,713
12,466	58,778	71,244
491,588	13,960	505,548
485,899	-	485,899
46,539,288	72,769	46,612,057
381,709	9,049	390,758
216,510,368	7,031,671	223,542,039
<u>\$ 216,892,077</u>	<u>\$ 7,040,720</u>	<u>\$ 223,932,797</u>

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	General	Road and Bridge	Human Services	Forfeited Tax
ASSETS				
Cash and Pooled Investments	\$ 733,081	\$ 12,473,245	\$ 8,506,768	\$ 5,475,403
Restricted Cash	-	-	-	-
Petty Cash and Change Funds	9,070	50	350	-
Undistributed Cash in Agency Funds	796,593	300,300	548,903	-
Property Taxes Receivable - Delinquent	463,536	205,953	355,038	-
Special Assessments Receivable -Delinquent	-	-	-	-
Accounts Receivable, Net	152,522	529	176,391	2,827,523
Interest Receivable	20,872	-	-	-
Due from Other Governments	2,173,434	989,746	2,750,330	-
Due from Other Funds	1,872,178	-	-	-
Loans Receivable	231,860	-	-	-
Inventories	-	1,157,121	-	-
Total Assets	<u>\$ 6,453,146</u>	<u>\$ 15,126,944</u>	<u>\$ 12,337,780</u>	<u>\$ 8,302,926</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 1,010,405	\$ 308,167	\$ 2,008,156	\$ 4,133
Salaries Payable	270,430	188,388	316,826	-
Escheat Property Payable	4,972	-	-	-
Contracts Payable	-	147,214	-	-
Due to Other Funds	-	-	12,425	3,268,698
Due to Other Governments	210,932	96,158	1,765,751	819,228
Total Liabilities	<u>1,496,739</u>	<u>739,927</u>	<u>4,103,158</u>	<u>4,092,059</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Taxes	463,536	205,953	355,038	-
Unavailable Special Assessments	-	-	-	-
Unavailable Loans Receivable	231,860	-	-	-
Unavailable Timber Receivable	-	-	-	1,822,393
Unavailable Grants	99,812	1,002,196	261,504	-
Unavailable Revenues - Other	223,504	1,404	-	-
Property Taxes Levied for Subsequent Year	501,949	198,445	373,543	-
Total Deferred Inflows of Resources	<u>1,520,661</u>	<u>1,407,998</u>	<u>990,085</u>	<u>1,822,393</u>
FUND BALANCES				
Nonspendable for				
Prepays				
Inventories	-	1,157,121	-	-
Restricted for				
E911	203,300	-	-	-
Permit to Carry Gun Fees	511,686	-	-	-
Capital Improvements	-	-	-	-
Health Education	-	-	906,231	-
Land Replacement	-	-	-	1,439,118
Recorder's Equipment Purchases	-	-	-	-
Recorder's Compliance Fund	-	-	-	-
Natural Resource Management	-	-	-	-
Debt Service	-	-	-	-
Environmental Improvements	-	-	-	-
Future Forfeited Tax Distribution	-	-	-	949,356
Committed for				
County Highway Preservation	-	125,878	-	-
Assigned for				
Road and Bridge Department	-	11,696,020	-	-
Health and Human Services Programs	-	-	6,338,306	-
Unorganized Townships	-	-	-	-
Solid Waste Management	-	-	-	-
Unassigned	2,720,760	-	-	-
Total Fund Balances	<u>3,435,746</u>	<u>12,979,019</u>	<u>7,244,537</u>	<u>2,388,474</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 6,453,146</u>	<u>\$ 15,126,944</u>	<u>\$ 12,337,780</u>	<u>\$ 8,302,926</u>

See accompanying Notes to Financial Statements.

Capital Projects	Environmental	Other Governmental Funds	Total Governmental Funds
\$ 7,014,771	\$ 7,970,591	\$ 6,282,332	\$ 48,456,191
-	-	1,256,024	1,256,024
-	-	325	9,795
-	-	208,628	1,854,424
-	-	121,323	1,145,850
-	-	248,402	248,402
2,499	3,798	6,353	3,169,615
-	-	-	20,872
207	-	12,987	5,926,704
-	-	2,624,161	4,496,339
7,000	-	-	238,860
-	-	-	1,157,121
<u>\$ 7,024,477</u>	<u>\$ 7,974,389</u>	<u>\$ 10,760,535</u>	<u>\$ 67,980,197</u>
\$ 190	\$ -	\$ 139,345	\$ 3,470,396
-	-	44,972	820,616
-	-	-	4,972
-	-	-	147,214
-	-	1,215,216	4,496,339
1,455	-	17,021	2,910,545
<u>1,645</u>	<u>-</u>	<u>1,416,554</u>	<u>11,850,082</u>
-	-	121,323	1,145,850
-	-	248,402	248,402
7,000	-	-	238,860
-	-	-	1,822,393
-	-	-	1,363,512
-	-	-	224,908
-	-	93,386	1,167,323
<u>7,000</u>	<u>-</u>	<u>463,111</u>	<u>6,211,248</u>
-	-	-	1,157,121
-	-	-	203,300
-	-	-	511,686
5,661,251	-	-	5,661,251
-	-	-	906,231
-	-	-	1,439,118
899,994	-	-	899,994
454,587	-	-	454,587
-	-	1,603,215	1,603,215
-	-	850,008	850,008
-	7,974,389	-	7,974,389
-	-	-	949,356
-	-	-	125,878
-	-	-	11,696,020
-	-	-	6,338,306
-	-	4,249,731	4,249,731
-	-	2,177,916	2,177,916
-	-	-	2,720,760
<u>7,015,832</u>	<u>7,974,389</u>	<u>8,880,870</u>	<u>49,918,867</u>
<u>\$ 7,024,477</u>	<u>\$ 7,974,389</u>	<u>\$ 10,760,535</u>	<u>\$ 67,980,197</u>

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS **\$ 49,918,867**

Total net position reported for governmental activities in the statement of net position is 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. 224,475,236

Other long-term assets (deferred inflows of resources) are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the governmental funds. 5,043,925

The County's net pension liability and related deferred inflows and outflows are recorded on the statement of net position. Balances at year-end are:

Net Pension Liability	\$ (28,110,335)	
Deferred Outflows of Resources - Pension Related	13,488,707	
Deferred Inflows of Resources - Pension Related	<u>(12,846,602)</u>	(27,468,230)

The Risk Management Internal Service Fund is used by management to charge the costs of self-insurance to individual funds. The Internal Service Fund's assets and liabilities are included in governmental activities in the statement of net position. 2,372,904

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.

Bonds Payable	(13,775,000)	
Bond Premium	(788,724)	
Deferred Outflows of Resources on Refunding Bond	52,190	
Accrued Interest Payable	(274,600)	
Net Other Postemployment Benefit Obligation	(16,326,499)	
Compensated Absences	<u>(6,337,992)</u>	<u>(37,450,625)</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 216,892,077**

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2017**

	General	Road and Bridge	Human Services	Forfeited Tax
REVENUES				
Taxes	\$ 17,425,097	\$ 7,307,230	\$ 12,091,820	\$ -
Special Assessments	-	-	-	-
Licenses and Permits	76,866	-	-	-
Intergovernmental	7,473,421	11,975,132	10,941,470	-
Charges for Services	1,265,263	1,185,286	3,318,643	-
Fines and Forfeits	49,114	-	-	-
Gifts and Contributions	208,016	-	-	-
Investment Earnings	374,407	-	11,094	-
Miscellaneous	1,384,456	373,648	371,210	4,499,410
Total Revenues	28,256,640	20,841,296	26,734,237	4,499,410
EXPENDITURES				
CURRENT				
General Government	13,669,579	-	-	939,588
Public Safety	13,810,662	-	-	-
Highways and Streets	756,684	10,218,609	-	-
Sanitation	67,221	-	-	-
Human Services	-	-	23,907,266	-
Health	-	-	2,490,241	-
Culture and Recreation	122,776	-	-	-
Conservation of Natural Resources	991,877	-	-	1,740,342
Economic Development	-	-	-	-
CAPITAL OUTLAY				
General Government	181,893	-	-	-
Public Safety	245,310	-	-	-
Highways and Streets	-	9,061,713	-	-
Sanitation	-	-	-	-
Human Services	-	-	7,048	-
Culture and Recreation	-	-	-	-
Conservation of Natural Resources	-	-	-	-
DEBT SERVICE				
Principal Retirement	-	-	-	-
Interest	-	-	-	-
Administrative (Fiscal) Charges	-	-	-	-
Total Expenditures	29,846,002	19,280,322	26,404,555	2,679,930
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,589,362)	1,560,974	329,682	1,819,480
OTHER FINANCING SOURCES (USES)				
Refunding Bonds Issued	-	-	-	-
Premium on Bonds Issued	-	-	-	-
Payments to Escrow Agent	-	-	-	-
Transfers In	1,144,537	-	-	-
Transfers Out	(1,302,824)	(250,000)	(250,000)	(1,808,006)
Proceeds from Sale of Assets	15,000	36,800	-	-
Proceeds from Sale of Bonds	-	-	-	-
Total Other Financing Sources (Uses)	(143,287)	(213,200)	(250,000)	(1,808,006)
NET CHANGE IN FUND BALANCES	(1,732,649)	1,347,774	79,682	11,474
Fund Balances - Beginning of Year	5,168,395	11,399,813	7,164,855	2,377,000
INCREASE IN INVENTORIES	-	231,432	-	-
FUND BALANCES - END OF YEAR	\$ 3,435,746	\$ 12,979,019	\$ 7,244,537	\$ 2,388,474

See accompanying Notes to Financial Statements.

Capital Projects	Environmental	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 2,851,559	\$ 39,675,706
-	-	1,290,317	1,290,317
-	-	480	77,346
45,801	-	1,141,124	31,576,948
123,386	-	642,188	6,534,766
-	-	-	49,114
-	-	-	208,016
-	89,708	-	475,209
252,936	-	73,367	6,955,027
422,123	89,708	5,999,035	86,842,449
456,655	-	-	15,065,822
-	-	-	13,810,662
-	-	2,015,110	12,990,403
-	-	1,691,906	1,759,127
-	-	-	23,907,266
-	-	-	2,490,241
-	-	624,144	746,920
-	194,300	890,079	3,816,598
45,801	-	-	45,801
152,353	-	-	334,246
21,548	-	-	266,858
-	-	-	9,061,713
-	-	42,009	42,009
-	-	-	7,048
-	-	52,765	52,765
-	-	4,243	4,243
-	-	1,210,000	1,210,000
-	-	412,907	412,907
146,552	-	81,214	227,766
822,909	194,300	7,024,377	86,252,395
(400,786)	(104,592)	(1,025,342)	590,054
-	-	2,705,000	2,705,000
568,466	-	253,969	822,435
-	-	(2,910,000)	(2,910,000)
1,302,824	-	1,211,209	3,658,570
-	(47,740)	-	(3,658,570)
-	-	-	51,800
5,310,000	-	-	5,310,000
7,181,290	(47,740)	1,260,178	5,979,235
6,780,504	(152,332)	234,836	6,569,289
235,328	8,126,721	8,646,034	43,118,146
-	-	-	231,432
\$ 7,015,832	\$ 7,974,389	\$ 8,880,870	\$ 49,918,867

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 6,569,289**

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 reported as unavailable revenue. In the statement of activities, those revenues are recognized when earned. (2,373,603)

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	\$ 11,581,755	
Current Year Depreciation	<u>(7,623,711)</u>	3,958,044

In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net position differs from the change in fund balance by the net book value of the capital assets disposed. (78,955)

Pension expenditures on the governmental funds are measured by current-year employer contributions. Pension expenses on the statement of activities are measured by the change in net pension liability and the related deferred outflows and inflows of resources. (2,389,665)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.
Debt Proceeds (8,015,000)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal Repayments		
General Obligation Bonds		4,120,000

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 Compensated Absences	(232,312)	
Change in Net Other Postemployment Benefit Obligation	(145,827)	
Amortization of Bond Discounts	(8,164)	
Amortization of Bond Premiums	(780,756)	
Amortization of Refunding Deferred Charge	(9,348)	
Change in Accrued Interest Payable	(92,306)	
Change in Inventories	<u>231,432</u>	(1,037,281)

Internal Service Funds are used to by management to charge the costs of certain activities to individual funds. The net (expense) revenue of the Internal Services Funds is reported with governmental activities.

Change in Net Position of the Internal Service Fund		<u>(371,120)</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 381,709</u>
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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017**

	Nursing Home	Itasca Medical Care	Itasca Resource Center (Nonmajor)	Totals	Governmental Activities Risk Management Internal Service Fund
ASSETS					
CURRENT ASSETS					
Cash and Pooled Investments	\$ 2,226,819	\$ 15,630,390	\$ 732,482	\$ 18,589,691	\$ 2,995,075
Accounts Receivable (Net)	1,144,474	3,962,836	2,132	5,109,442	1,043
Due from Other Governments	-	-	6,510	6,510	-
Prepaid Items	175,598	-	-	175,598	-
RESTRICTED ASSETS					
Resident Trust Funds	8,740	-	-	8,740	-
Total Current Assets	3,555,631	19,593,226	741,124	23,889,981	2,996,118
NONCURRENT ASSETS					
Provider Settlements Receivable	-	774,746	-	774,746	-
Excess Other Postemployment Benefits Contributions	393,455	-	-	393,455	-
Capital Assets					
Nondepreciable	22,496	-	256,800	279,296	-
Depreciable (Net)	10,901,565	-	132,415	11,033,980	-
Total Noncurrent Assets	11,317,516	774,746	389,215	12,481,477	-
Total Assets	14,873,147	20,367,972	1,130,339	36,371,458	2,996,118
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Pension Outflows	1,265,897	-	21,846	1,287,743	-

See accompanying Notes to Financial Statements.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
STATEMENT OF NET POSITION (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2017**

	Nursing Home	Itasca Medical Care	Itasca Resource Center (Nonmajor)	Totals	Governmental Activities Risk Management Internal Service Fund
LIABILITIES					
CURRENT LIABILITIES					
Accounts Payable	\$ 314,829	\$ 942,405	\$ 5,518	\$ 1,262,752	\$ 8,536
Salaries Payable	131,547	236,862	3,320	371,729	2,441
Compensated Absences Payable - Due within One Year	246,078	-	-	246,078	-
Claims and Judgments Payable - Due within One Year	-	4,918,280	-	4,918,280	-
Due to Other Governments	-	-	498	498	1,661
Unearned Revenue	66,775	4,484,493	-	4,551,268	-
Accrued Interest Payable	72,588	-	-	72,588	-
General Obligation Bonds Payable - Due within One Year	190,000	-	-	190,000	-
Revenue Bonds Payable - Due within One Year	260,000	-	-	260,000	-
Total Current Liabilities	1,281,817	10,582,040	9,336	11,873,193	12,638
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS					
Due to Residents	8,740	-	-	8,740	-
NONCURRENT LIABILITIES					
Claims and Judgments Payable	-	-	-	-	610,576
Net Pension Liability	5,024,157	-	86,668	5,110,825	-
General Obligation Bonds Payable	5,055,000	-	-	5,055,000	-
Provider Settlements	-	2,732,161	-	2,732,161	-
Revenue Bonds Payable	4,890,000	-	-	4,890,000	-
Total Noncurrent Liabilities	14,969,157	2,732,161	86,668	17,787,986	610,576
Total Liabilities	16,259,714	13,314,201	96,004	29,669,919	623,214
DEFERRED INFLOWS OF RESOURCES					
Deferred Pension Inflows	932,373	-	16,189	948,562	-
NET POSITION					
Net Investment in Capital Assets	529,061	-	389,215	918,276	-
Restricted	393,455	-	-	393,455	-
Unrestricted	(1,975,559)	7,053,771	650,777	5,728,989	2,372,904
Total Net Position	\$ (1,053,043)	\$ 7,053,771	\$ 1,039,992	\$ 7,040,720	\$ 2,372,904

See accompanying Notes to Financial Statements.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2017**

	Nursing Home	Itasca Medical Care	Itasca Resource Center (Nonmajor)	Totals	Governmental Activities Risk Management Internal Service Fund
OPERATING REVENUES					
Charges for Services	\$ -	\$ -	\$ 542,630	\$ 542,630	\$ -
Patient Services	11,149,827	-	-	11,149,827	-
Insurance Dividends	-	-	-	-	167,111
Miscellaneous	151,724	111,112	-	262,836	309,587
Capitation Revenue	-	66,345,835	-	66,345,835	-
Total Operating Revenues	11,301,551	66,456,947	542,630	78,301,128	476,698
OPERATING EXPENSES					
Capitation Expense	-	527,951	-	527,951	-
Provider Settlements	-	3,828,877	-	3,828,877	-
Pharmacy Claims	-	8,476,970	-	8,476,970	-
Medical Claims	-	46,473,006	-	46,473,006	-
Professional Services	-	-	90,123	90,123	40,081
Nursing Services	4,816,548	-	-	4,816,548	-
Plant Operations	509,711	-	-	509,711	-
Claims Paid	-	-	-	-	667,486
Administration and Fiscal Services	1,244,738	5,809,430	-	7,054,168	-
Other Care-Related	334,985	-	-	334,985	-
Other Services and Charges	1,271,526	-	-	1,271,526	-
Supplies	-	-	104,896	104,896	3,829
Payroll	-	-	86,348	86,348	75,895
Employee Benefits and Payroll Taxes	2,140,209	-	28,457	2,168,666	29,564
Travel	-	-	810	810	-
Telephone	-	-	734	734	912
Utilities	-	-	65,406	65,406	-
Fuel	-	-	7,414	7,414	-
Insurance	-	-	-	-	45,833
Postage	-	-	-	-	32
Vehicle Expense	-	-	-	-	565
Laundry and Linen	105,277	-	-	105,277	-
Dietary	851,378	-	-	851,378	-
Housekeeping	279,710	-	-	279,710	-
Depreciation	798,432	-	25,373	823,805	-
Repairs and Maintenance	-	-	54,264	54,264	-
Total Operating Expenses	12,352,514	65,116,234	463,825	77,932,573	864,197

See accompanying Notes to Financial Statements.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2017**

	Nursing Home	Itasca Medical Care	Itasca Resource Center (Nonmajor)	Totals	Governmental Activities Risk Management Internal Service Fund
OPERATING INCOME (LOSS)	\$ (1,050,963)	\$ 1,340,713	\$ 78,805	\$ 368,555	\$ (387,499)
NONOPERATING REVENUES (EXPENSES)					
Investment Income	1,009	12,951	-	13,960	16,379
Contributions and Donations	58,778	-	-	58,778	-
Interest Expense	(432,275)	-	-	(432,275)	-
Intergovernmental - Operating Grants	-	-	31	31	-
Total Nonoperating Revenues (Expenses)	(372,488)	12,951	31	(359,506)	16,379
CHANGE IN NET POSITION	(1,423,451)	1,353,664	78,836	9,049	(371,120)
Net Position - Beginning of Year	370,408	5,700,107	961,156	7,031,671	2,744,024
NET POSITION - END OF YEAR	<u>\$ (1,053,043)</u>	<u>\$ 7,053,771</u>	<u>\$ 1,039,992</u>	<u>\$ 7,040,720</u>	<u>\$ 2,372,904</u>

See accompanying Notes to Financial Statements.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2017**

	Nursing Home	Itasca Medical Care	Itasca Resource Center (Nonmajor)	Totals	Governmental Activities Risk Management Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers and Users	\$ 11,560,790	\$ -	\$ 540,363	\$ 12,101,153	\$ -
Receipts from Internal Services Provided	-	-	-	-	309,563
Receipts from Capitation and Other	-	65,962,255	-	65,962,255	-
Other Receipts	-	-	-	-	167,111
Payments to Suppliers	(5,586,623)	-	(335,563)	(5,922,186)	(376,865)
Payments to Employees	(5,500,266)	-	(109,394)	(5,609,660)	(107,356)
Payments to Providers, Suppliers, and Employees	-	(60,873,488)	-	(60,873,488)	-
Net Cash Provided (Used) by Operating Activities	473,901	5,088,767	95,406	5,658,074	(7,547)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Contributions and Donations	58,778	-	-	58,778	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest Received	1,009	12,951	-	13,960	16,379
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of Capital Assets	(123,177)	-	(8,875)	(132,052)	-
Principal Paid on Bonds	(440,000)	-	-	(440,000)	-
Interest Paid on Bonds	(441,347)	-	-	(441,347)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,004,524)	-	(8,875)	(1,013,399)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(470,836)	5,101,718	86,531	4,717,413	8,832
Cash and Cash Equivalents - Beginning of Year	2,697,655	10,528,672	645,920	13,872,247	2,986,243
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,226,819</u>	<u>\$ 15,630,390</u>	<u>\$ 732,451</u>	<u>\$ 18,589,660</u>	<u>\$ 2,995,075</u>

See accompanying Notes to Financial Statements.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2017**

	Nursing Home	Itasca Medical Care	Itasca Resource Center (Nonmajor)	Totals	Governmental Activities Risk Management Internal Service Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES					
Operating Income (Loss)	\$ (1,050,963)	\$ 1,340,713	\$ 78,805	\$ 368,555	\$ (387,499)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Depreciation	798,432	-	25,373	823,805	-
Bad Debts	46,528	-	-	46,528	-
Changes in Assets and Liabilities:					
(Increase) Decrease in Assets and					
Deferred Outflows of Resources:					
Accounts Receivable	199,695	(531,796)	(1,290)	(333,391)	(24)
Provider Settlements Receivable	-	2,000,479	-	2,000,479	-
Due from Other Governments	-	-	(977)	(977)	-
Prepaid Items	(16,096)	-	-	(16,096)	-
Pension Deferred Outflows of Resources	1,497,918	-	23,416	1,521,334	-
Increase (Decrease) in Liabilities and					
Deferred Inflows of Resources:					
Accounts Payable	50,859	86,433	(6,576)	130,716	(13,554)
Due to Other Funds	-	-	(5,367)	(5,367)	-
Salaries Payable	89,263	(25,725)	117	63,655	(525)
Due to Other Governments	-	-	27	27	(1,372)
Unearned Revenue	13,016	37,104	-	50,120	-
Claims and Judgments Payable	-	2,181,559	-	2,181,559	395,427
Net Pension Liability	(1,390,252)	-	(21,938)	(1,412,190)	-
Pension Deferred Inflows of Resources	235,501	-	3,816	239,317	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 473,901</u>	<u>\$ 5,088,767</u>	<u>\$ 95,406</u>	<u>\$ 5,658,074</u>	<u>\$ (7,547)</u>

See accompanying Notes to Financial Statements.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2017**

	Cemetery Investment Trust	Agency
ASSETS		
Cash and Pooled Investments	\$ 55,004	\$ 5,564,335
Accounts Receivable	-	2,307
Due from Other Governmental Units	-	1,716,441
	<hr/>	<hr/>
Total Assets	55,004	<u><u>\$ 7,283,083</u></u>
LIABILITIES		
Funds Held in Trust	-	\$ 251,241
Taxes Collected In Advance	-	938,113
Accounts Payable	-	2,470
Due to Other Governments	363	6,091,259
	<hr/>	<hr/>
Total Liabilities	363	<u><u>\$ 7,283,083</u></u>
NET POSITION		
Net Position - Restricted	<u><u>\$ 54,641</u></u>	

See accompanying Notes to Financial Statements.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2017**

	Cemetery Investment Trust
	<hr/>
ADDITIONS	
Investment Earnings	\$ -
DEDUCTIONS	
Distributions to Participants	<hr/> -
NET POSITION	
Change in Net Position	-
Net Position - Beginning of the Year	<hr/> 54,641
NET POSITION - END OF YEAR	<hr/> <hr/> \$ 54,641

See accompanying Notes to Financial Statements.

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Itasca County, Minnesota (the County) are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for the year ended December 31, 2017. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

The County was established March 10, 1891, and is an organized county having the powers, duties, and privileges granted counties by Minnesota Statutes ch. 373. As required by GAAP, these financial statements present the County (Primary Government) and its material component units for which the County is financially accountable. There is accountability if the primary government appoints a voting majority of an organization's governing body and has the ability to impose its will on that governing body; or there is the potential for the organization to provide specific financial benefits or to impose specific financial burden on the primary government based on the criteria for determining component units. The County is not required to include any component units. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Joint Ventures, Jointly-Governed Organizations, and Related Organization

The County participates in several joint ventures with surrounding counties and other units of government. Details on these joint ventures are included in Note 8.C. The County also participates in several jointly-governed organizations which are described in Note 8.D. A related organization is discussed in Note 8.E.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the Primary Government. These statements include the financial activities of the overall 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.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

1. Government-Wide Statements (Continued)

In the government-wide statement of net position, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net position is reported in three parts: (1) 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 activity are offset by program revenues. Direct expenses are those that are 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 that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. 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 and enterprise funds are aggregated and reported as nonmajor funds.

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

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

The Road and Bridge Special Revenue Fund was established 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. These activities are funded primarily by property taxes and intergovernmental revenues.

The Human Services Special Revenue Fund accounts for health programs, economic assistance, and community social service programs. These activities are funded primarily by property taxes and intergovernmental revenues.

The Forfeited Tax Special Revenue Fund is used to account for proceeds from the sale or rental of lands forfeited to the State of Minnesota pursuant to Minnesota Statutes ch. 282 and for timber sales from these tax-forfeited lands. Revenues in excess of expenditures are distributed according to Minnesota Statutes. The remaining fund balance is restricted by state statute.

The Capital Projects Fund accounts for financial resources to be used for capital acquisition, construction, or improvement of major capital facilities. Grant monies and bond proceeds fund most of the projects.

The Environmental Special Revenue Fund accounts for funds collected from the sale of County-owned lakeshore leased lots. These funds may only be spent on improvement of natural resources. This fund was previously reported as a permanent fund; however, change in statute allows a percentage of the total cash balance to be spent rather than spending solely from earnings on the fund.

The County reports the following major proprietary funds:

The Nursing Home Enterprise Fund accounts for the operation of the County's nursing home in Grand Rapids. Activities necessary to provide nursing home services are accounted for in this fund. The nursing home operates on a fiscal year ending September 30, 2017.

The Itasca Medical Care Enterprise Fund is used to account for the operation of the Itasca Medical Care. Activities necessary to operate, control, and manage all matters concerning the County's health care functions are accounted for in this fund.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

The Risk Management Internal Service Fund is used to account for the self-insured workers' compensation program. Financing is provided by charges to the various participating governmental funds.

The Debt Service Fund accounts for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs. Property taxes are the primary revenue source restricted for repayment of debt through bond documents.

The Cemetery Investment Trust Fund accounts for the pooled and nonpooled 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 agency capacity.

C. Measurement Focus and Basis of Accounting

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

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. Cash and Cash Equivalents

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 Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled investments are reported at their fair value at December 31, 2017, based on market prices. Pursuant to Minnesota Statutes §385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants.

The County Auditor/Treasurer invests the funds of the Risk Management Internal Service Fund, Cemetery Investment Trust Fund, and Environmental Special Revenue Fund separately from pooled investments.

3. Receivables and Payables

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

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Accounts receivable is shown net of an allowance for uncollectibles which is calculated on a case-by-case basis.

Advances between funds, as reported in the fund financial statements, are classified as nonspendable fund balance account in the General Fund to indicate that they are not available for appropriation and are not expendable available financial resources.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. Receivables and Payables (Continued)

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

Loans receivable consist of a loan made to the Grand Rapids-Itasca County Joint Airport Commission to finance the construction of airport improvements and loans made to individuals to improve septic systems.

4. Inventories

Road and Bridge Special Revenue Fund inventory is valued at cost using the average cost method and consists of expendable supplies and parts held for consumption. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Reported inventories of governmental funds classified as nonspendable fund balance to indicate that a portion of fund balance is not available for future appropriation. Inventories in proprietary funds and at the government-wide level are recorded as expenses when consumed.

The supplies inventories in the Nursing Home Enterprise Fund are stated at cost determined by the first in/first out method. The cost of the inventory in the enterprise funds is recorded as an expense at the time the inventory is consumed.

5. Prepaid Items

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

6. Restricted Assets

Certain funds of the County are classified as restricted 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.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 financial statements and the 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 at least three years. For the Nursing Home, capital assets are defined as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Property, plant, and equipment of the Primary Government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	15-40
Improvements	5-25
Public Domain Infrastructure	50-75
Furniture, Equipment and Vehicles	3-15

8. Unearned Revenue

Governmental funds, proprietary funds, and the government-wide 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 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.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

9. Compensated Absences (Continued)

Unused accumulated vacation and vested sick leave are paid to employees upon termination. Unvested sick leave is available to employees in the event of illness-related absences and is not paid to them at termination. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The current portion consists of current severance payouts. The noncurrent portion consists of the remaining vacation and sick leave.

10. Deferred Outflows of Resources

The County reports decreases in net position or fund balance, that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary funds statement of net position or governmental fund balance sheet. The County will not recognize the related outflow until a future event occurs. The County has two items that qualify for reporting in this category which are both reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second type relates to pension liabilities as described in Note 4 to the financial statements.

11. Deferred Inflows of Resources

The County's financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position or fund balance that applies to a future period. The County will not recognize the related revenue until a future event occurs. The County has four types of items which occur creating deferred inflows of resources: The first type of deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the County's year) under the modified accrual basis of accounting. The second type relates to advanced allotments which occurs when allotments are received in advance of the period they are for in both the modified accrual and full accrual basis of accounting. The third type relates to pension liabilities as described in Note 4 to the financial statements and is reported in the government-wide statement of net position. The final type occurs because the County collected property taxes prior to the year where levied for and, therefore, the County will report deferred inflows for these items.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

12. Net Pension Liability

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

13. 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 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 expensed in the year of bond issuance.

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.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

14. Fund Balance and Net Position

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned, and unassigned fund balances. Nonspendable portions of fund balance relate to prepaids, inventories, and long-term receivables as well as amounts that are legally or contractually required to be maintained intact. Restricted funds are constrained by outside parties (i.e., statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the County Board. Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes; but are neither restricted nor committed. The Auditor/Treasurer has been authorized to assign fund balances for the County. Unassigned fund balance is the residual classification for the County's General Fund and negative residual fund balances in other governmental funds, and includes all spendable amounts not contained in other classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the County's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the County's policy to use committed first, then assigned, and finally unassigned amounts.

Net position represents the differences between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the government-wide and proprietary fund financial statements. The net investment of capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire capital assets. Net position is reported as restricted in government-wide financial statements when there are limitations on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

15. 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.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Expenditures in Excess of Budget

The following funds had expenditures in excess of budget for the year ended December 31, 2017. These over expenditures were seen as necessary and were funded by greater than anticipated revenues, bond proceeds, and existing fund balance.

	Actual Expenditures	Final Budget	Expenditures in Excess of Budget
General Fund	\$ 29,846,002	\$ 26,559,153	\$ 3,286,849
Human Services Fund	26,404,555	23,016,868	3,387,687
Solid Waste Management Fund	1,733,915	1,651,912	82,003
Debt Service Fund	1,704,121	1,428,625	275,496

The excess of expenditures over budget was funded by greater than anticipated revenues and existing fund balance.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

The County's total cash and investments at December 31, 2017 are as reported below:

Primary Government	
Cash and Pooled Investments	\$ 71,895,381
Restricted Assets	1,264,764
Petty Cash and Change Funds	9,795
Fiduciary Funds	
Investment Trust Funds	55,004
Agency Funds	5,564,335
Total Cash and Investments	<u><u>\$ 78,789,279</u></u>

The County is authorized by Minnesota Statutes §§118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minnesota Statutes §118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least 10% more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

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 that is not owned or controlled by the financial institution furnishing the collateral.

The cash balance of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at fair value at December 31, 2017, based on market prices. Pursuant to Minnesota Statutes §385.07, investment earnings on cash and pooled investments of \$353,535 are credited to the General Fund. Cash and investments that are not pooled are credited to the respective fund.

Custodial Credit Risk - Deposits - In the case of 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 has a policy requiring certificates of deposit to be collateralized in accordance with Minnesota Statutes. The policy requires collateral to be deposited in the name of Itasca County and subject to release by the County Auditor/Treasurer. At December 31, 2017, the County's deposits were fully insured or collateralized.

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

- (a) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minnesota Statutes §118A.04, subd. 6;
- (b) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (c) 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;
- (d) bankers' acceptances of United States banks;

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

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

Interest Rate Risk - Investments - Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The County's investment policy is to invest operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

Credit Risk - Investments - Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to a holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute. See the table on the following pages for the ratings of specific investment types.

Custodial Credit Risk – Investments – For investments in securities, custodial credit risk is the risk that in the event of a failure of the counterparty, the County will not be able to recover the value of its investment securities that are in the possession of an outside party. To minimize this risk, it is the County's policy to investigate brokers/dealers' credit worthiness prior to investment. Brokers/dealers must be selected by the County Auditor/Treasurer within the restrictions prescribed by Minnesota Statutes ch. 118A. Brokers/dealers may hold investments only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC insurance protection available.

At December 31, 2017, Itasca County had \$1,632,642 of U.S. governmental securities, and \$42,995,479 of state and local government securities which were both acquired and held by the counterparty's same trust department. These investments were subject to custodial credit risk.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Concentration of Credit Risk - Investments - The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy to minimize that risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

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

Investment Type	Credit Risk		Concentration of Credit Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
U.S. Government Agency Securities					
Federal National Mortgage Association	AAA/AA+	Moody's/S&P		2/18/2021	\$ 361,723
Federal National Mortgage Association	AAA/AA+	Moody's/S&P		2/18/2021	1,270,919
Total Federal National Mortgage Association			< 5%		1,632,642
U.S. Treasury Notes					
U.S. Treasury Note	NR	NA		1/11/2018	\$ 499,855
U.S. Treasury Note	NR	NA		1/18/2018	499,725
Total U. S Treasury Notes			< 5%		999,580
Investment Pools/Mutual Funds					
MM Federated US Treasury Cash Reserve	NR	N/A	< 5%	N/A	\$ 132,453
MM Federated US Treasury Cash Reserve	NR	N/A	< 5%	N/A	216,025
Total Investment Pools/Mutual Funds					348,478
State and Local Securities					
Evansville Vangerburch County IN	AA-	S&P		2/1/2018	\$ 265,130
Duluth MN	AA2/AA	Moody's/S&P		2/1/2018	100,031
Plano TX Independent School District	AAA	Moody's/S&P		2/15/2018	200,562
Hazelwood MO School District	AA+	S&P		3/1/2018	200,714
Saginaw County MI Taxable Pension	AA3	Moody's		5/1/2018	100,177
University of California CA	AA3/AA-	Moody's/S&P		5/15/2018	348,702
University of Alabama AL Univ Gen	AA2/AA	Moody's/S&P		5/15/2018	145,815
South Dakota St Building Authority	AA1/AA+	Moody's/S&P		6/1/2018	100,157
New Mexico St Fin Auth Revenue Taxable	AA2/AA+	Moody's/S&P		6/15/2018	249,685
Lincoln NE Arpt Auth	AA1	Moody's		7/1/2018	325,855
Monroe County NY Indl Dev Corp R	AA3/AA-	Moody's/S&P		7/1/2018	300,900
New York St Energy Research	AAA	Moody's/S&P		7/1/2018	275,481
University OK Revs	AA-	S&P		7/1/2018	300,882

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration of Credit Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
State and Local Securities (Continued)					
Indiana State Bond Bank Revenue	AA+	S&P		7/15/2018	\$ 200,394
Toms River NJ Board of Education	AA-	S&P		7/15/2018	54,805
Hamilton County in Public Building Taxable	AA1/AA+	Moody's/S&P		8/1/2018	105,071
Riverside CA Community College	AA2/AA	Moody's/S&P		8/1/2018	350,592
Oregon St	AA1/AA+	Moody's/S&P		8/1/2018	100,157
Riverside CA Community College	AA2/AA	Moody's/S&P		8/1/2018	150,254
El Paso TX Taxable	AA	S&P		8/15/2018	200,286
Victoria TX	AA	S&P		8/15/2018	100,566
South Dakota St Building Authority	AA1/AA+	Moody's/S&P		9/1/2018	499,010
Michigan St Housing Development Authority	AA	S&P		10/1/2018	99,358
Kalamazoo MI	AA-	S&P		10/1/2018	149,582
Monona WI	AA+	S&P		10/1/2018	100,317
University of Massachusetts	AA2/AA-	Moody's/S&P		11/1/2018	349,097
Riverside County CA Asset Leasing	AA-	S&P		11/1/2018	149,456
Brownsville PA Area School District	A2/AA	Moody's/S&P		11/15/2018	301,395
Cook County IL School District	A1	S&P		12/15/2018	91,364
North Carolina St	AA2/AA	Moody's/S&P		1/1/2019	129,424
Duluth MN Taxable Tourism	AA2/AA	Moody's/S&P		2/1/2019	141,586
Parker County TX Taxable	AA	S&P		2/15/2019	150,324
Brunswick & Glynn County GA	AA+	S&P		4/1/2019	148,871
Colorado St Hsg & Fin Auth	AAA	Moody's/S&P		5/1/2019	74,681
El Monte Ca City School District Taxable	AA3/AA	Moody's/S&P		5/1/2019	249,895
South Dakota Housing Development Authority	AAA	Moody's/S&P		5/1/2019	150,119
Colorado St Hsg & Fin Auth	AAA	Moody's/S&P		5/1/2019	189,020
Build NYC Resource Corp	AA2/AA-	Moody's/S&P		6/1/2019	299,160
Grand Strand Water and Sewer	AA2/AA	Moody's/S&P		6/1/2019	253,850
McLennan County TX Public Fac Co Taxable	AA-	S&P		6/1/2019	300,075
Snohomish County WA School District #33	AA+	S&P		6/1/2019	498,055
University of New Mexico	AA2/AA	Moody's/S&P		6/1/2019	301,068
Washington Multnomah & Yamhill	AA3	Moody's		6/30/2019	501,050
Eugene OR Elec Utility Revenue	AA2/AA-	Moody's/S&P		8/1/2019	226,805
Mississippi St Development Bank	AA-	S&P		8/1/2019	215,882
South Dakota St Conservancy	AAA	Moody's/S&P		8/1/2019	199,446

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration of Credit Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
State and Local Securities (Continued)					
Allen TX Community Development Corp	AA2	Moody's		9/1/2019	\$ 246,230
Los Angeles County CA Redev Refunding	AA3/AA	Moody's/S&P		9/1/2019	344,141
Olathe KS Taxable	AA+	S&P		9/1/2019	299,772
Kalamazoo MI	AA-	S&P		10/1/2019	223,880
Rhode Island St Housing and Mortgage	AA2/AA+	Moody's/S&P		10/1/2019	299,907
Texas St Public Finance Authority	AAA	Moody's/S&P		10/1/2019	305,886
Macomb County MI	AA1/AA+	Moody's/S&P		11/1/2019	499,840
Macomb County MI	AA1/AA+	Moody's/S&P		11/1/2019	199,936
Madison Macoupin Etc Cntys Ilc	AA	S&P		11/1/2019	149,204
Pasadena CA School District	AA2/A+	Moody's/S&P		11/1/2019	201,366
South Dakota Housing Development Authority	AAA	Moody's/S&P		11/1/2019	249,093
Wilkes-Barre PA	AA	S&P		11/15/2019	505,725
Wilkes-Barre PA	AA	S&P		11/15/2019	202,290
Cincinnati OH	AA2/AA	Moody's/S&P		12/1/2019	349,811
Cook County IL Community Dist #5	AA1	Moody's		12/1/2019	348,576
Berkeley County School District	AA3/AA-	Moody's/S&P		12/1/2019	198,130
Renton WA	AA+	S&P		12/1/2019	148,068
Tacoma WA	A1/AA	Moody's/S&P		12/1/2019	199,544
Whatcom County WA School District #503B	AA1	Moody's		12/1/2019	98,989
N W Hendricks Schools	AA-	S&P		1/5/2020	246,785
Frisco TX Community Development Corp	AA3/AA-	Moody's/S&P		2/15/2020	144,137
Connecticut St	AA3/AA-	Moody's/S&P		3/15/2020	499,230
Connecticut St	AA3/AA-	Moody's/S&P		3/15/2020	199,692
Ogden City UT Redevelopment Agency	AA-	S&P		4/1/2020	202,256
University of N Texas TX	AA2	Moody's		4/15/2020	174,535
University of Texas TX	AA2	Moody's		4/15/2020	149,601
Oxford MI Community Schools	AA1	Moody's		5/1/2020	125,018
Cedar Springs MI Public School District	AA-	S&P		5/1/2020	196,178
Haslett MI Public School District	AA-	S&P		5/1/2020	197,864
Oxford MI Community Schools	AA1	Moody's		5/1/2020	150,021
Honolulu City and County HI Wastewater	AA2	Moody's		7/1/2020	299,784
Denver County City & County Dedicate	AA3/AA-	Moody's/S&P		8/1/2020	159,438
University of Minnesota MN	AA1/AA	Moody's/S&P		8/1/2020	260,179
Denver County City & County Dedicate	AA3/AA-	Moody's/S&P		8/1/2020	74,737

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration	Interest	Carrying (Fair) Value
	Credit	Rating	of Credit Risk	Rate Risk	
	Rating	Agency	Over 5% of Portfolio	Maturity Date	
State and Local Securities (Continued)					
Athens-Clarke County GA Unif Gov	AA3	Moody's		9/1/2020	\$ 342,783
Anaheim CA Housing & Public Impt	AA-	S&P		10/1/2020	428,635
Hawaii State	AA1/AA+	Moody's/S&P		10/1/2020	244,403
Honolulu City and County HI Green Bond	AA1	Moody's		10/1/2020	392,172
Port of Seattle WA Revenue	AA2/AA-	Moody's/S&P		10/1/2020	342,535
Imperial CA IRR District Elec Revenue	AA-	S&P		11/1/2020	287,917
Jackson OH Local School District Star	AA	S&P		12/1/2020	242,980
Little Miami OH Local School District	AA3	Moody's		12/1/2020	341,663
Mahoning County OH	AA	S&P		12/1/2020	485,610
Sugar Hill CA Downtown Development Authority	AA+	S&P		12/1/2020	195,194
Jobshio Begerage Sys STWD LIQ	AA3/AA	Moody's/S&P		1/1/2021	504,780
Jobshio Begerage Sys STWD LIQ	AA3/AA	Moody's/S&P		1/1/2021	151,434
Illinois ST Housing Development Authority	AA3/AA	Moody's/S&P		2/1/2021	301,317
San Antonio TX Taxable Certificates of Obligation	AAA	Moody's/S&P		2/1/2021	340,858
Illinois ST Housing Development Authority	AA3/AA	Moody's/S&P		2/1/2021	200,878
Berkeley County School District	AA1	Moody's		3/1/2021	306,834
New York St Dorm Auth	AA1/AAA	Moody's/S&P		3/15/2021	497,945
Anchor Bay MI Sch Dist	AA-	S&P		5/1/2021	499,235
Chippewa Wly MI Schs	AA1/AA-	Moody's/S&P		5/1/2021	354,928
Goodrich MI Area Sch District	AA-	S&P		5/1/2021	150,104
Lake Orion MI Cmnty Sch District	AA-	S&P		5/1/2021	500,745
Wisconsin St General Fund	AA3/AA-	Moody's/S&P		5/1/2021	340,967
Texas St A&M Univ Revenues	AAA/AAA	Moody's/S&P		5/15/2021	495,640
Texas St A&M Univ Revenues	AAA/AAA	Moody's/S&P		5/15/2021	148,692
Montgomery Cnty VA Econ Dev	AA2/AA-	Moody's/S&P		6/1/2021	346,787
Battle Creek MI Water and Wastewater	AA-	S&P		6/1/2021	199,626
Energy N W WA Elec Revenue	AA1/AA-	Moody's/S&P		7/1/2021	504,585
Florida ST Board of Admin	AA3/AA	Moody's/S&P		7/1/2021	250,258
Tennessee Housing Development Agency	AA1/AA+	Moody's/S&P		7/1/2021	377,527
Energy N W WA Elec Revenue	AA1/AA-	Moody's/S&P		7/1/2021	151,376
Lincoln NE Arpt Authority	AA1	Moody's		7/1/2021	145,751
New Hampshire St Housing	AA2	Moody's		7/1/2021	173,142
Carmel IN Local Public Impt	AA+	S&P		7/15/2021	196,116
New York City NY Transitional	AA1/AAA	Moody's/S&P		8/1/2021	353,374
San Francisco City & Cnty CA	AA-	S&P		8/1/2021	198,008

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration of Credit Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
State and Local Securities (Continued)					
San Jose CA Redev Agy Success	AA	S&P		8/1/2021	\$ 498,855
Victor Vly CA Cmnty Clg Dist	AA2/AA-	Moody's/S&P		8//2021	491,625
Holland MI Taxable Qualified Energy Conservation	AA	S&P		8/1/2021	148,083
Hidalgo Cnty Tax	AA2/AA-	Moody's/S&P		8/15/2021	506,910
Harlingen TX	AA-	S&P		8/15/2021	198,068
Idaho St Bldg Auth	AA2/AA	Moody's/S&P		9/1/2021	149,673
San Francisco City & Cnty CA	NR	NA		9/1/2021	335,080
Virginia St Clg Bldg Auth Edu	AA1/AA	Moody's/S&P		9/1/2021	513,150
Allen TX Community Development Corp	AA2	Moody's		9/1/2021	146,276
Fontana CA Redev Agy Successor	AA	S&P		10/1/2021	270,625
Madison WI	AAA	Moody's		10/1/2021	299,172
Minnesota St Clgs & Univ Reven	AA3/AA-	Moody's/S&P		10/1/2021	349,724
Monona WI	AA	S&P		10/1/2021	519,995
Oak Creek WI	AA2	Moody's		10/1/2021	255,365
Osceola Cnty FL Public Impt	AA3	Moody's		10/1/2021	494,375
San Marcos CA Redev Agy Succ	AA-	S&P		10/1/2021	491,515
Minnesota St Clgs & Univ Reven	AA3/AA-	Moody's/S&P		10/1/2021	249,803
New York City NY Housing Development	AA2/AA+	Moody's/S&P		11/1/2021	291,978
Nassau Cnty NY Interim Fin	AAA	S&P		11/15/2021	501,835
Nazareth PA Area Sch Dist	AA	S&P		11/15/2021	148,508
Lawrence County PA	AA	S&P		11/15/2021	49,575
Avon OH	AA2	Moody's		12/1/2021	196,760
Stafford Twp NJ	AA-	S&P		12/1/2021	397,532
New York St Environmental Facs	AAA/AAA	Moody's/S&P		1/15/2022	247,593
Brownsville TX	AA3/AA	Moody's/S&P		2/15/2022	350,245
Garland TX	AA+	S&P		2/15/2022	249,690
New York St Dorm Auth St Perso	AA1/AAA	Moody's/S&P		2/15/2022	151,797
Berkeley County School District	AA1/AA	Moody's/S&P		3/1/2022	204,518
New York St Urban Dev Corp	AA1/AAA	Moody's/S&P		3/15/2022	352,615
California St	AA3/AA-	Moody's/S&P		4/1/2022	498,420
California St Dept of Wtr Reso	AA1/AA	Moody's/S&P		5/1/2022	488,695
Texas St A&M Univ Revenues	AAA/AAA	Moody's/S&P		5/15/2022	498,030
New Mexico St Fin Auth Revenue Taxable	AA2/AAA	Moody's/S&P		6/15/2022	254,175
Albuquerque NM Gross Recpts	AA2/AAA	Moody's/S&P		7/1/2022	501,185
Cuyahoga Cnty OH Sales Tax Rev	AA2/AAA	Moody's/S&P		7/1/2022	247,433

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration	Interest	Carrying
	Credit Rating	Rating Agency	of Credit Risk Over 5% of Portfolio	Rate Risk Maturity Date	
State and Local Securities (Continued)					
New Hampshire St Hlth and Edu	AA3/AA-	Moody's/S&P		7/1/2022	198,470
University of Alabama AL Univ Gen	AA2/AA	Moody's/S&P		7/1/2022	486,050
New York NY	AA2/AA	Moody's/S&P		8/1/2022	510,425
New York NY	AA2/AA	Moody's/S&P		8/1/2022	153,128
Monona WI	AA-	S&P		9/1/2022	513,370
Baltimore MD	AA2/AA	Moody's/S&P		10/15/2022	297,210
Flowood MS	NR	NA		11/1/2022	198,200
Total State and Local Securities			54.3%		42,995,479
Negotiable Certificates of Deposit					
Barclays Bank Delaware	N/A	N/A	< 5%	7/30/2018	\$ 245,227
GS Bank	N/A	N/A	< 5%	8/1/2018	97,091
Charter Bank	N/A	N/A	< 5%	8/6/2018	245,999
Bank of Hapoalim B M	N/A	N/A	< 5%	11/2/2018	39,949
Bankers Bank	N/A	N/A	< 5%	1/11/2019	47,828
State Bank of India	N/A	N/A	< 5%	7/29/2019	244,757
Discover Bank	N/A	N/A	< 5%	7/30/2019	245,609
American Express Bank FSB	N/A	N/A	< 5%	7/31/2019	244,758
First Merchants Bank	N/A	N/A	< 5%	8/6/2019	245,307
Webster Bank Natl Assn	N/A	N/A	< 5%	8/6/2019	245,307
Bmw Bank of North America	N/A	N/A	< 5%	8/12/2019	184,704
Ally Bank	N/A	N/A	< 5%	1/13/2020	243,780
Goldman Sachs Bank USA	N/A	N/A	< 5%	11/2/2020	145,198
Wells Fargo Bank NA	N/A	N/A	< 5%	11/2/2020	148,088
Cathay Bank	N/A	N/A	< 5%	11/10/2020	92,100
Capital One Bank USA	N/A	N/A	< 5%	11/23/2020	186,621
Wells Fargo Bank NA	N/A	N/A	< 5%	9/14/2021	85,814
Farmers & Merchants	N/A	N/A	< 5%	11/19/2021	146,236
Bank of Baroda	N/A	N/A	< 5%	11/23/2021	58,778
Total Negotiable Certificates of Deposit					3,193,151
Total Investments					49,169,330
Deposits					29,610,154
Petty Cash and Change Funds					9,795
Total Investments and Deposits					\$ 78,789,279

NR = Not Rated

<5% - Concentration is less than 5% of investments

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Fair Value Measurements

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

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

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

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

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

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

Assets measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
Investments by fair value level				
Negotiable Certificates of Deposit	\$ -	\$ 3,193,151	\$ -	\$ 3,193,151
State and Local Securities	-	42,995,479	-	42,995,479
Federal National Mortgage Association	-	1,632,642	-	1,632,642
Investments measured at net asset value				
Money Market Mutual Funds				1,348,058
Total Investments				49,169,330
Deposits and Cash on Hand				29,619,949
				<u>\$ 78,789,279</u>

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Fair Value Measurements (Continued)

The Money Market Federated United States Treasury Cash Reserve Fund is an external investment pool, which is quoted at a net asset value, and its investments are valued at amortized cost. The amortized cost method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of investments. Debt and equity securities classified in Level 2 are valued using the following approaches:

- U.S. government agency securities are valued using a market approach by utilizing quotes prices for identical securities in markets that are not active.
- State and local securities are valued using a market approach using quoted prices for similar securities in active markets.
- Negotiable certificates of deposit are valued using matrix pricing based on the securities' relationship to benchmark quotes prices.

3. Capital Assets

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

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
GOVERNMENTAL ACTIVITIES					
Capital Assets, Not Being Depreciated					
Land	\$ 1,490,739	\$ 65,000	\$ 3,261	\$ -	\$ 1,552,478
Construction-in-Progress	663,979	8,287,727	7,514,261	-	1,437,445
Total Capital Assets, Not Being Depreciated:	2,154,718	8,352,727	7,517,522	-	2,989,923
Capital Assets, Being Depreciated					
Buildings	34,535,975	-	-	-	34,535,975
Machinery, Furniture, and Equipment	29,385,916	3,229,028	474,786	-	32,140,158
Infrastructure	254,179,431	7,514,261	-	-	261,693,692
Total Capital Assets, Being Depreciated	318,101,322	10,743,289	474,786	-	328,369,825
Less Accumulated Depreciation for					
Buildings	15,755,612	804,772	-	-	16,560,384
Machinery, Furniture, and Equipment	19,771,230	1,653,037	399,092	-	21,025,175
Infrastructure	64,133,051	5,165,902	-	-	69,298,953
Total Accumulated Depreciation	99,659,893	7,623,711	399,092	-	106,884,512
Total Capital Assets, Being Depreciated, Net	218,441,429	3,119,578	75,694	-	221,485,313
Governmental Activities Capital Assets, Net	\$ 220,596,147	\$ 11,472,305	\$ 7,593,216	\$ -	\$ 224,475,236

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets (Continued)

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
BUSINESS-TYPE ACTIVITIES					
Capital Assets, Not Being Depreciated					
Land	\$ 279,296	\$ -	\$ -	\$ -	\$ 279,296
Construction in Progress	-	-	-	-	-
Total Capital Assets, Not Being Depreciated:	279,296	-	-	-	279,296
Capital Assets, Being Depreciated					
Buildings	21,424,934	10,330	-	-	21,435,264
Improvements	327,583	7,031	-	-	334,614
Machinery, Furniture, and Equipment	3,328,924	114,691	-	-	3,443,615
Total Capital Assets, Being Depreciated	25,081,441	132,052	-	-	25,213,493
Less Accumulated Depreciation For					
Buildings	10,782,941	617,774	-	1,609	11,402,324
Improvements	235,544	13,251	-	-	248,795
Machinery, Furniture, and Equipment	2,337,223	192,780	-	(1,609)	2,528,394
Total Accumulated Depreciation	13,355,708	823,805	-	-	14,179,513
Total Capital Assets, Being Depreciated, Net	11,725,733	(691,753)	-	-	11,033,980
Business-Type Activities Capital Assets, Net	\$ 12,005,029	\$ (691,753)	\$ -	\$ -	\$ 11,313,276

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

Governmental Activities	
General Government	\$ 118,357
Public Safety	847,768
Highways and Streets, Including Depreciation of Infrastructure Assets	6,428,819
Human Services	15,544
Sanitation	113,680
Culture and Recreation	43,857
Conservation of Natural Resources	55,686
Total Governmental Activities	<u>\$ 7,623,711</u>
Business-Type Activities	
Nursing Home	\$ 798,432
Itasca Resource Center	25,373
Total Business-Type Activities	<u>\$ 823,805</u>

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Minimum Future Rents Receivable – Itasca Resource Center Enterprise Fund

On February 1, 2012, Itasca County entered into a three-year lease agreement with Independent School District No. 318 (ISD 318) to occupy 6,353 square feet of space. In addition to the monthly lease, ISD 318 agrees to pay \$3,180 per year for information and referral services and \$100 per month for playground maintenance. On February 1, 2015, this lease was extended for a three-year period for 5,380 square feet and the current rate was \$11.75 per square foot.

On February 1, 2012, Itasca County entered into a three-year lease agreement with Itasca County Health and Human Services (ICHHS) to occupy 24,159 square feet. In addition to the monthly lease, ICHHS agrees to pay \$42,529 per year for information and referral services. On February 1, 2015, this lease was extended for a 3-year period for 18,165 square feet and the current rate was \$11.75 per square foot.

On March 1, 2012, Itasca County entered into a three-year lease agreement with KOOTASCA Community Action, Inc., to occupy space in the Itasca County Resource Center to occupy 9,336 square feet at a rental rate of \$8.50 per square foot. In addition to the monthly lease, KOOTASCA agrees to pay \$8,480 per year for information and referral services and \$100 per month for playground maintenance. Effective February 1, 2013, this lease was amended and the current rate was changed to \$9.50 per square foot, with the total square feet rented reduced to 4,354. The additional payments for information and referral services and playground maintenance were eliminated in this addendum. On February 1, 2015, this lease was extended for a three-year period and the current rate was changed to \$11.75 per square foot.

On March 1, 2012, Itasca County entered into a three-year lease agreement with Northeast Minnesota Office of Job Training to occupy 3,304 square feet at a rental rate of \$12.75 per square foot. On March 1, 2015, this lease was extended for a three-year period for 3,269 square feet and the current rate was changed to \$15 per square foot.

Minimum future rents on noncancelable leases are:

Year Ending <u>December 31.</u>	<u>Amount</u>
2018	<u>\$ 123,264</u>

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Forfeited Tax Fund	\$ 644,537	Apportionment of Net Proceeds
	Human Services Fund	12,425	Reimbursement for Services
	Other Governmental Funds	<u>1,215,216</u>	Eliminate Negative Balances
Total Due to General Fund		1,872,178	
Other Governmental Funds	Forfeited Tax Fund	<u>2,624,161</u>	Apportionment of Net Proceeds
Total Due From/To Other Funds		<u>\$ 4,496,339</u>	

2. Interfund Transfers

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

	Amount	Purpose
Transfers to General Fund From		
Road and Bridge Fund	\$ 250,000	Operations
Forfeited Tax Fund	644,537	Distribute Net Proceeds
Human Services Fund	<u>250,000</u>	Operations
Total Transfers to General Fund	1,144,537	
Transfers to Capital Projects Fund from		
General Fund	1,302,824	Close Out Old Capital Projects
Transfers to Unorganized Towns Road & Bridge Fund From		
Forfeited Tax Fund	147,577	Distribute Net Proceeds
Transfers to Other Governmental Funds from		
Forfeited Tax Fund	1,015,892	Distribute Net Proceeds
Environmental Permanent Trust Fund	<u>47,740</u>	Firewise Grant Payment
Total Transfers to Other Governmental Funds	<u>1,063,632</u>	
Total Interfund Transfers	<u>\$ 3,658,570</u>	

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities

1. Construction Commitments

The County has active construction projects as of December 31, 2017. The projects include the following:

	<u>Total Contract</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities Road Construction	\$ 8,420,207	\$ 8,010,795	\$ 409,412

2. Long-Term Debt

Governmental Activities:

Types of Indebtedness	Final Maturity	Annual Installment Amounts	Interest Rates (%)	Original Issues Amount	Outstanding Balance December 31, 2017
General Obligation Bonds					
2011A G.O. Capital Improvement Bonds	2026	\$3,690,000	5.40%	\$ 3,690,000	\$ 3,690,000
2015B G.O. Capital Improvement Refunding Bonds	2023	\$490,000 - 790,000	4.00%	2,070,000	2,070,000
2017A G.O. Capital Improvement Refunding Bonds	2028	\$590,000 - 1,000,000	3.00%-5.00%	8,015,000	8,015,000
Total General Obligation Bonds				<u>\$ 13,775,000</u>	13,775,000
Add: Unamortized Premium					788,724
Total Governmental Activities Debt					<u>\$ 14,563,724</u>

Business-Type Activities:

Types of Indebtedness	Final Maturity	Annual Installment Amounts	Interest Rates (%)	Original Issues Amount	Outstanding Balance September 30, 2017
Bonds					
2009A Taxable G.O. Nursing Home Build America Bonds	2031	\$160,000 - \$375,000	2.35% - 5.75%	\$ 4,605,000	\$ 3,755,000
2009B Taxable G.O. Nursing Home Recovery Zone Economic Development Bonds	2035	\$340,000 - \$405,000	6.00%	1,490,000	1,490,000
2014 General Obligation Nursing Home Revenue Refunding Bonds	2032	\$120,000-\$235,000	2.00% - 3.60%	3,335,000	2,900,000
2015A General Obligation Nursing Home Revenue Bonds	2036	\$100,000-\$155,000	1.15% - 3.60%	2,350,000	2,250,000
Total Business-Type Debt, Net				<u>\$ 11,780,000</u>	<u>\$ 10,395,000</u>

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Debt Service Requirements

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

Governmental Activities:

Year Ending December 31,	General Obligation Bonds	
	Principal	Interest
2018	\$ 405,000	\$ 614,600
2019	870,000	557,110
2020	905,000	530,485
2021	1,420,000	488,510
2022	1,755,000	420,185
2023-2027	7,800,000	1,058,310
2028	620,000	9,300
Total	<u>\$ 13,775,000</u>	<u>\$ 3,678,500</u>

Business-Type Activities:

Year Ending September 30,	Revenue and Refunding Bonds		Nursing Home Bonds	
	Principal	Interest	Principal	Interest
2018	\$ 260,000	\$ 145,068	\$ 190,000	\$ 284,200
2019	265,000	140,443	200,000	275,615
2020	270,000	135,493	205,000	266,349
2021	275,000	130,243	215,000	256,423
2022	275,000	124,568	230,000	245,628
2023-2027	1,495,000	502,988	1,335,000	1,031,194
2028-2032	1,730,000	253,754	1,720,000	600,935
2033-2035	580,000	42,660	1,150,000	106,200
Total	<u>\$ 5,150,000</u>	<u>\$ 1,475,217</u>	<u>\$ 5,245,000</u>	<u>\$ 3,066,544</u>

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds	\$ 9,880,000	\$ 8,015,000	\$ 4,120,000	\$ 13,775,000	\$ 405,000
Less: Unamortized Discount	(8,164)	-	(8,164)	-	-
Add: Unamortized Premiums	7,968	822,435	41,679	788,724	-
Compensated Absences	6,105,680	3,154,965	2,922,653	6,337,992	3,903
Claims and Judgments	215,149	395,427	-	610,576	-
Total Governmental Activities Long-Term Liabilities	<u>\$ 16,200,633</u>	<u>\$ 12,387,827</u>	<u>\$ 7,076,168</u>	<u>\$ 21,512,292</u>	<u>\$ 408,903</u>
BUSINESS-TYPE ACTIVITIES					
Taxable General Obligation Nursing Home Bonds	\$ 5,425,000	\$ -	\$ 180,000	\$ 5,245,000	\$ 190,000
General Obligation Nursing Home Revenue Refunding Bonds	3,060,000	-	160,000	2,900,000	160,000
General Obligation Nursing Home Revenue Bonds	2,350,000	-	100,000	2,250,000	100,000
Total Business-Type Activities Long-Term Liabilities	<u>\$ 10,835,000</u>	<u>\$ -</u>	<u>\$ 440,000</u>	<u>\$ 10,395,000</u>	<u>\$ 450,000</u>

Long-term liabilities for the internal service fund are included as part of the above totals. For the Internal Service Fund, \$610,576 of claims and judgments payable are included in the amounts for the governmental activities at year-end.

For governmental activities, debt is generally paid from the Debt Service Fund. Compensated absences are generally liquidated by the General Fund, Road and Bridge Fund, and Human Services Funds. Claims and judgments are paid from the Internal Service Fund.

5. Refunded Debt Issued

During 2017, the County issued 2017 General Obligation Capital Improvement and Refunding Bonds in the amount of \$8,015,000 with an interest rate of 3.00% to 5.00%. These proceeds were used to provide the financing of capital improvements and refunding of the 2008 General Obligation Bonds. The balance of the outstanding maturities refunded was \$2,910,000 and interest rates of 3.70% to 4.15%. As a result of this refunding, the County decreased its debt service requirements by \$198,360.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

5. Conduit Debt

In 2010, the County issued \$6,155,000 of Industrial Development Revenue Bonds to refinance the Charles K. Blandin Foundation revenue bonds, Series 2004A, originally issued by the County on behalf of the Blandin Foundation, a Minnesota nonprofit corporation, to be used to assist the Grand Itasca Clinic and Hospital in the construction of a new hospital and clinic deemed to be in the public interest. The bonds are payable solely from revenues of the Foundation. The County is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the County's financial statements. The amount of bonds outstanding at December 31, 2017, was \$1,560,000.

In 2006, the County issued \$1,250,000 of industrial development revenue notes to provide financial assistance to North Homes, Inc., a Minnesota nonprofit corporation, to be used to construct a 16-bed group home for youth with mental disabilities and to refinance and renovate a transitional home for boys, which homes are deemed to be in the public interest. The notes are payable solely from the revenues of the nonprofit corporation. The County is not obligated in any manner for repayment of the notes. Accordingly, the notes are not reported as liabilities in the County's financial statements. The amount of notes outstanding at December 31, 2017, was \$425,064.

In 2008, the County issued \$1,250,000 of revenue notes to provide financial assistance to North Homes, Inc., a Minnesota nonprofit corporation, to be used to acquire 8,200 square feet of the Itasca Juvenile Center. The notes are payable solely from the revenues of the nonprofit corporation. The County is not obligated in any manner for repayment of the notes. Accordingly, the notes are not reported as liabilities in the County's financial statements. The amount of notes outstanding at December 31, 2017, was \$532,919.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

6. Itasca Medical Care (IMCare) Liabilities

Claims Payable

Claims payable represent the estimated ultimate net cost of all reported and unreported claims incurred prior to and unpaid at the end of the year. The liability for unpaid claims is estimated primarily by the use of cost per contract data and completion factors developed from historical lag patterns. Those estimates are subject to the effects of trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the liability for claims payable is adequate. The estimates are reviewed and adjusted as experience develops or new information becomes known, and such adjustments are included in current operations. Activity in the liability for unpaid claims and claim adjustment expense for IMCare is summarized as follows:

	2017	2016
Balance - Beginning of the Year	\$ 4,966,949	\$ 9,181,268
Amount Incurred, Related to		
Prior Years	(307,818)	(1,213,097)
Current Year	59,614,822	56,905,166
Amount Paid, Related to		
Prior Years	(4,638,750)	(7,611,539)
Current Year	(54,716,723)	(52,294,849)
Balance - End of Year	<u>\$ 4,918,480</u>	<u>\$ 4,966,949</u>

Stop-Loss Insurance

IMCare is self-insured and does not contract with an outside insurance company for stop-loss insurance. Itasca County has guaranteed the solvency of IMCare.

Provider Settlement

IMCare contracts with providers in Itasca County to provide health care services to its enrolled members. Under these arrangements, the providers receive an interim claim payment based upon fee for services schedules. These providers are at risk to the degree specified in their contracts and the net effect of all other revenues and expenses. The final settlement occurs when all claims are considered settled. Also included in provider settlements is an estimate for the settlements related to Medicare Part D.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DEFINED BENEFIT PENSION PLANS

A. Plan Description

The County participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes* Chapters 353 and 356. PERA's defined benefit pension plans are tax-qualified plans under Section 401(a) of the Internal Revenue Code.

1. General Employees Retirement Plan

All full-time and certain part-time employees of the County are covered by the General Employees Plan, except those covered by the Police and Fire Plan or the Correctional Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Plan

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999 the Police and Fire Plan also covered police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to PERA.

3. Local Government Correctional Plan

The Correctional Plan was established for correctional officers serving in county and regional corrections facilities. Eligible participants must be responsible for the security, custody, and control of the facilities and their inmates.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided

PERA provides retirement, disability, and death benefits. 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. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1.0% increases.

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.

1. General Employees Plan Benefits

General Employees Plan 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 PERA's Coordinated and Basic Plan members. The retiring member received 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% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years of service and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For 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.

2. Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010 but before July 1, 2014 vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014 vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3.0% of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989 a full annuity is available when age plus years of service equal at least 90.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

3. Police and Fire Plan Benefits

Benefits for Correctional Plan members first hired after June 30, 2010 vest of a prorated basis from 50% after five years up to 100% after ten years of credited service. The annuity accrual rate is 1.9% of average salary for each year of service in that plan. For Correctional Plan members who were first hired prior to July 1, 1989 a full annuity is available when age plus years of service equal at least 90.

C. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

1. General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2017. The County was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The County's contributions to the General Employees Fund for the year ended December 31, 2017 were \$1,574,355. The County's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2017. The County was required to contribute 16.20% of pay for members in calendar year 2017. The County's contributions to the Police and Fire Fund for the year ended December 31, 2017 were \$586,451. The County's contributions were equal to the required contributions as set by state statute.

3. Correctional Fund Contributions

In calendar year 2017 plan members were required to contribute 5.83% of their annual covered salary. The County was required to contribute 8.75% of pay for plan members in calendar year 2017. The County's contributions to the Correctional Fund for the year ended December 31, 2017 were \$105,675. The County's contributions were equal to the required contributions as set by state statute.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2017, the County reported a liability of \$26,691,229 for its proportionate share of the General Employees Fund's net pension liability, of which \$5,024,157 was the Nursing Home's portion as of September 30, 2017. The County's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the County totaled \$335,657, of which \$63,177 was the Nursing Home's portion. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.3394% which was an increase of 0.0050% from its proportion measured as of June 30, 2016. The Nursing Home's proportion was 0.0787% which was a decrease of 0.003% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the County recognized pension expense of \$3,641,256 for its proportionate share of the General Employees Plan's pension expense, of which \$723,000 was the Nursing Home's expense. In addition, the County recognized an additional \$9,870 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund, of which \$2,000 was the Nursing Home's expense (and grant revenue).

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

At December 31, 2017, the County reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 879,663	\$ 1,717,113
Changes in Actuarial Assumptions	4,431,320	2,675,799
Net Difference Between Projected and Actual Earnings	172,388	-
Changes in Proportion	350,488	586,428
Contributions Paid to PERA Subsequent to the Measurement Date	893,623	-
Total	<u>\$ 6,727,482</u>	<u>\$ 4,979,340</u>

A total of \$893,623 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2018	\$ 818,670
2019	1,607,941
2020	(439,089)
2021	(1,133,003)

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs

At December 31, 2017, the County reported a liability of \$4,819,925 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County proportion was 0.3570% which was an increase of 0.018% from its proportion measured as of June 30, 2016. The County also recognized \$32,130 for the year ended December 31, 2017 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

For the year ended December 31, 2017, the County recognized pension expense of \$1,140,601 for its proportionate share of the Police and Fire Plan's pension expense.

At December 31, 2017, the County reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 110,944	\$ 1,288,553
Changes in Actuarial Assumptions	6,307,833	6,843,098
Net Difference Between Projected and Actual Earnings	66,197	-
Changes in Proportion	247,875	339,911
Contributions Paid to PERA Subsequent to the Measurement Date	294,090	-
Total	<u>\$ 7,026,939</u>	<u>\$ 8,471,562</u>

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs (Continued)

A total of \$294,090 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2018	\$ 31,410
2019	31,410
2020	(145,278)
2021	(359,399)
2022	(1,296,856)

3. Correctional Fund Pension Costs

At December 31, 2017, the County reported a liability of \$1,710,006 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.6% which was an increase of 0.03% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the County recognized a pension expense of \$650,285 for its proportionate share of the Correctional Plan's pension expense.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

3. Correctional Fund Pension Costs (Continued)

At December 31, 2017, the County reported its proportionate share of the Public Employees Correctional Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 1,089	\$ 27,068
Changes in Actuarial Assumptions	884,446	297,662
Net Difference Between Projected and Actual Earnings	-	19,532
Changes in Proportion	83,752	-
Contributions Paid to PERA Subsequent to the Measurement Date	52,742	-
Total	<u>\$ 1,022,029</u>	<u>\$ 344,262</u>

A total of \$52,742 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2018	\$ 371,247
2019	381,362
2020	(79,982)
2021	(47,602)

4. Total Pension Expense

The total pension expense for all plans recognized by Itasca County for the year ended December 31, 2017 was \$5,474,142.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

<u>Assumptions</u>	
Inflation	2.50% per Year
Salary Increases	3.25% per Year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for all plans for male and females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1.0% per year for the General Employees Plan through 2044 and Police and Fire Plan through 2064 and the 2.5% thereafter for both plans, and 2.5% for all years for the Correctional Plan.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The most recent five-year experience study for the Police and Fire Plan was completed in 2016. Experience studies have not been prepared for the Correctional Plan, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and nonvested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for nonvested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Police and Fire Fund

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30% for vested and nonvested deferred members. The CSA has been changed to 33% for vested members and 2% for nonvested members.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

Police and Fire Fund (Continued)

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00% for all years to 1.00% per year through 2064 and 2.50% thereafter.

Correctional Fund

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

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

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

F. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rate specified in Minnesota Statutes. Based on that assumption, the fiduciary net position of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current plan members. 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 Correctional Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2061. Beginning in fiscal year ended June 30, 2062, when projected benefit payments exceed the fund's projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 3.56% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.96% for the Correctional Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 3.56% after.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

G. Pension Liability Sensitivity

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

	Proportionate Share of the					
	General Employees Retirement Plan		Public Employees Police and Fire Plan		Public Employees Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50 %	\$ 41,400,078	6.50 %	\$ 9,077,325	4.96 %	\$ 2,817,876
Current	7.50	26,691,229	7.50	4,819,925	5.96	1,710,006
1% Increase	8.50	14,649,363	8.50	1,305,206	6.96	845,298

H. Pension Plan Fiduciary Net Position

Detailed information about each 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.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 DEFINED CONTRIBUTION PLAN

Four Board members of Itasca County are covered by the Public Employees Defined Contribution Plan (PEDCP), 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% 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% of employer contributions and 0.25% of the assets in each member account annually.

Total contributions made by the County during fiscal year 2017 were:

Contribution Amount		Percentage of Covered Payroll		Required Rate
Employee	Employer	Employee	Employer	
\$ 13,002	\$ 13,002	5.00%	5.00%	5.00%

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 6 POSTEMPLOYMENT BENEFITS

A. Plan Description and Funding Policy

Itasca County provides postemployment health insurance benefits for certain retired employees and their spouses under a single-employer defined benefit plan. The authority to provide these benefits is established by Minnesota Statutes §471.61 subdivision 2a. A separate report is not issued for the plan.

Road and Bridge and Courthouse employees who were hired prior to January 1, 2000, and meet the eligibility requirements established by PERA are eligible for employer-paid health insurance benefits. Itasca County will pay for 100% of the health insurance premiums of the employee and 50% of the health insurance premiums for the spouse for life. For Road and Bridge and Courthouse employees hired after January 1, 2000, the maximum County share for health insurance premiums is capped at \$20,000.

Health and Human Services and Attorney employees hired prior to January 1, 1994, and Sheriff's Office employees hired prior to January 1, 1998, who meet the eligibility requirements established by PERA are eligible for employer-paid health insurance benefits. Itasca County will pay for 100% of the health insurance premiums of the employee and 50% of the health insurance premiums for the spouse for life. For Health and Human Services and Attorney's employees hired after January 1, 1994, and Sheriff's Office employees hired after January 1, 1998, the maximum County share for health insurance premiums is capped at \$10,000. Attorney's employees must have ten years of County service to be eligible. After January 1, 2000, Sheriff's Office employees must also have 15 years of County service to be eligible.

Itasca County supervisory and confidential employees hired prior to December 22, 1995, who meet the eligibility requirements established by PERA and have ten years of service to Itasca County are eligible for employer-paid health insurance benefits. Itasca County will pay for 100% of the health insurance premiums of the employee and 50% of the health insurance premiums for the spouse for life. For supervisory and confidential employees hired after December 22, 1995, the maximum County share for health insurance premiums is capped at \$10,000.

Itasca Nursing Home employees who were hired before July 1, 1994, are continuously employed until retirement, have at least 15 years of service with the Nursing Home, have participated in the health care insurance program for 15 years prior to retirement, and have met the eligibility requirements of PERA, are eligible to receive hospital/medical benefits for life of the retiree or surviving spouse. The Itasca Nursing Home will pay 100% of the retiree's premium and 50% of the spouse's premium for these employees. For retirements after July 1, 1994, the retiree is responsible for 50% of the retiree's premium upon becoming eligible for Medicare and is solely responsible for the spouse's premium. Pre-Medicare retirees are responsible for 100% of the premium.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 6 POSTEMPLOYMENT BENEFITS (CONTINUED)

A. Plan Description and Funding Policy (Continued)

Employees who retire under contract provisions which limit the amount of benefit to a \$10,000 or \$20,000 cap or employees who do not qualify for the aforementioned benefits will be eligible to continue coverage with respect to both themselves and their eligible dependents under the County's health benefits program. These retirees are required to pay 100% of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, these retirees are receiving an implicit rate subsidy.

As of December 31, 2017, there were 258 retirees receiving health benefits from the County's health plan and 379 active employees covered under this plan. The cost of other postemployment benefits is funded on a "pay-as-you-go" method. OPEB liabilities are generally liquidated by the General Fund and applicable Special Revenue Funds.

B. Annual OPEB Cost and Net OPEB Obligation

The County's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost of 2017, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

	Itasca County December 31, 2017	Itasca Nursing Home September 30, 2017
Annual Required Contribution (ARC)	\$ 2,426,497	\$ 48,066
Interest on Net OPEB Obligation	611,629	(16,498)
Adjustment to ARC	(685,429)	19,162
Annual OPEB Cost	<u>2,352,697</u>	<u>50,730</u>
Contributions During the Year	<u>(2,206,870)</u>	<u>(31,739)</u>
Increase (Decrease) in Net OPEB Obligation/ Excess OPEB Contributions	145,827	18,991
Net OPEB Obligation/Excess Contributions - Beginning of Year	<u>16,180,672</u>	<u>(412,446)</u>
Net OPEB Obligation/Excess Contributions - End of Year	<u><u>\$ 16,326,499</u></u>	<u><u>\$ (393,455)</u></u>

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 6 POSTEMPLOYMENT BENEFITS (CONTINUED)

B. Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation/excess contributions for 2017, 2016, and 2015 were as follows:

	Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
Itasca County:	December 31, 2017	\$ 2,352,697	\$ 2,206,870	93.8 %	\$ 16,326,499
	December 31, 2016	1,654,390	3,175,958	192.0	16,180,672
	December 31, 2015	4,778,407	2,356,027	49.3	17,702,240

	Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Excess Contributions
Nursing Home:	September 30, 2017	\$ 50,730	\$ 31,739	62.6 %	\$ (393,455)
	September 30, 2016	43,647	121,537	278.5	(412,446)
	September 30, 2015	43,340	113,087	260.9	(334,556)

C. Funded Status

The County currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

Itasca County

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
County:	12/31/2016	\$ -	\$ 44,361,148	\$ 44,361,148	- %	\$ 26,114,018	169.9 %

Itasca Nursing Home

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Nursing Home:	9/30/2014	\$ -	\$ 824,494	\$ 824,494	- %	\$ 4,865,927	16.9 %

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 6 POSTEMPLOYMENT BENEFITS (CONTINUED)

D. Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of the 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 (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the December 31, 2016 and September 30, 2014, actuarial valuations (most recent information available), the entry age normal level percentage of pay actuarial cost method was used. The actuarial assumptions included a 3.78% discount rate, which is based on the estimated long-term investment yield on the general assets of the County and the Nursing Home. For Itasca County, the annual healthcare cost trend rate is 8.50% initially, reduced incrementally to an ultimate rate of 4% after fourteen years. For the Nursing Home, the annual health care cost trend rate is -0-% in the year ended September 30, 2014, 8.5% in the year ending September 30, 2015, graded to 6% over six years. The unfunded actuarial accrued liability is being amortized as a level percentage of pay, over an open 30-year period from September 30, 2008.

The change in the liability was primarily due to the County implementing a Medicare supplement plan through Blue Cross Blue Shield effective as of January 1, 2017, which decreased the Unfunded Actuarial Accrued Liability by approximately \$39.5 million. Other factors that contributed to the change in liability included lowering the discount rate from 4.00% to 3.78%, modifying the assumed mortality, disability, withdrawal, retirement, and salary increase rates, decreasing the percentage of future retirees assumed to have an eligible spouse who also opts for health coverage at retirement, and updates to retiree contributions, per capital health costs, and future trend rates on such costs.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 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 for which the County carries commercial insurance. 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 the Property and Casualty Division. The County self-insures for workers' compensation through its Risk Management Internal Service Fund. For group health insurance, the County belongs to Arrowhead Procure. For other risks of loss, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

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

The County's Risk Management Internal Service Fund is used to manage the workers' compensation claims which are self-insured by the County. Premiums are paid into the Risk Management Internal Service Fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. The County has not had an actuarial study to determine a claims liability for workers' compensation, but the claims administrator, a private company, has estimated a liability of \$610,576, which does not include incurred but not reported claims, at December 31, 2017. This amount is shown as a liability in the Risk Management Internal Service Fund. The County is a member of the Workers' Compensation Reinsurance Association (the Association). Under the plan, the County is liable for the first \$500,000 toward any claim arising from a single occurrence. The Association covers claims over \$500,000.

Changes in the balances of claims liabilities during the past two years are as follows:

	<u>2017</u>	<u>2016</u>
Unpaid Claims - Beginning of Fiscal Year	\$ 215,149	\$ 474,425
Incurred Claims	683,115	57,599
Claims Payments	<u>(287,688)</u>	<u>(316,875)</u>
Unpaid Claims - End of Fiscal Year	<u>\$ 610,576</u>	<u>\$ 215,149</u>

The County belongs to Arrowhead Procure, a joint powers entity, which sponsors a self-insurance plan to provide group employee health benefits to its participating members. Blue Cross/Blue Shield administers the claims and receives a fee for this service. All members pool premiums and losses. Group members choose from the available plans, and premiums are based on a composite rate for the group as a whole. The excess of insurance premiums over claims paid is deposited into a self-insurance reserve fund. Itasca County holds the self-insurance reserves in a fiduciary capacity, and they are reported in an agency fund.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 8 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS

A. Steel Mill Project

Itasca County has entered into a reimbursement agreement between Itasca County, the State of Minnesota, and Essar Global Limited. Essar Global is the parent company of Minnesota Steel Industries that is developing a steelmaking facility in Itasca County. The State of Minnesota has provided funding to Itasca County for construction of certain public infrastructure improvements related to the steel mill project. If the project is not fully and completely constructed and placed into operation, the State of Minnesota may require Itasca County to return all or a portion of these grant funds. Under the terms of the reimbursement agreement, Essar Global and Minnesota Steel will reimburse Itasca County for any and all costs it directly incurs relating to the construction of the public infrastructure, up to a maximum amount of \$65,900,000, if the project is not completely constructed and operated.

It has been determined that the use of the grant funds constitutes a business subsidy under Minnesota Statutes §§ 116J.993 to 116J.995 because the public infrastructure will principally benefit a single business at the time the improvements are made. As required by these statutes, Itasca County has also entered into a business subsidy agreement with Essar Global and Minnesota Steel. The agreement requires Minnesota Steel to meet certain job and wage goals and to remain operational for at least five years. If these job, wage, and operational goals are not met, Minnesota Steel is responsible for repayment of a pro-rated share of the grant funds subsidized.

B. Contingent Liabilities

Amounts received or receivable from granting 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.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 8 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

C. Joint Ventures

Itasca County-Grand Rapids Airport Commission

The County entered into a joint powers agreement with the City of Grand Rapids for the purpose of acquisition of the necessary lands and for the joint construction and operation of an airport.

The Itasca County-Grand Rapids Airport Commission is governed by a six-member board, composed of three members appointed by each government. If the agreement is terminated, each government has a 50% ownership of assets of the airport.

Itasca County contributed \$20,000 to the Itasca County-Grand Rapids Airport Commission during 2017.

In October 2011, the County entered into a new joint powers agreement with the City of Grand Rapids. While the County still has 50% ownership of the airport facilities, the City of Grand Rapids now has unilateral control over the operations of the airport and the Airport is included in the City of Grand Rapids' financial statements as a fund of the city.

Aitkin-Itasca-Koochiching Community Health Services Board

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

The CHS Board is composed of two members from Aitkin and Koochiching Counties and three members from Itasca County, each appointed by the participating counties. Funding is obtained through federal, state, local, and private sources. Itasca County receives all funds and appropriates to each county its share through an agency fund. Itasca County records its revenues and expenditures in the Human Services Special Revenue Fund.

A summary of the financial information of the Aitkin-Itasca-Koochiching Community Health Services Board's government-wide statements for the year ended December 31, 2017 (the most recent available), was:

Total Assets	\$ 544,328
Total Deferred Outflows of Resources	73,471
Total Liabilities	422,339
Total Deferred Inflows of Resources	25,000
Total Net Position	170,460
Total Revenues	1,558,376
Total Expenses	1,574,775
Change in Net Position	(16,399)

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 8 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

C. Joint Ventures (Continued)

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

Separate financial information can be obtained from:

Community Health Board Administrator
1209 SE 2nd Avenue
Grand Rapids, Minnesota 55744

Northeast Minnesota Office of Job Training

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

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

A summary of the financial information of the Northeast Minnesota Office of Job Training's government-wide statements for June 30, 2017, was:

Total Assets	\$ 2,770,570
Total Deferred Outflows of Resources	938,409
Total Liabilities	3,917,827
Total Deferred Inflows of Resources	346,582
Total Net Position	(555,430)
Total Revenues	4,847,094
Total Expenses	5,005,491
Change in Net Position	(158,397)

Separate financial information can be obtained from:

Northeast Minnesota Office of Job Training
820 North 9th Street, Suite 210
PO Box 1028
Virginia, Minnesota 55792

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 8 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

C. Joint Ventures (Continued)

Minnesota Counties Information Systems (MCIS)

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

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

A summary of the financial information of MCIS' funds for the fiscal year ended December 31, 2016 (the most recent available), was:

Total Assets	\$ 1,462,592
Total Deferred Outflows of Resources	436,639
Total Liabilities	1,567,252
Total Deferred Inflows of Resources	101,358
Total Net Position	230,621
Total Revenues	3,306,715
Total Expenses	4,014,096
Change in Net Position	(707,381)

Separate financial information can be obtained from:

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

Mississippi Headwaters Board

Aitkin, Beltrami, Cass, Clearwater, Crow Wing, Hubbard, Itasca, and Morrison Counties entered into a joint powers agreement, pursuant to the provisions of Minnesota Statutes §471.59, for the purpose of preparing, adopting, and implementing a comprehensive land use plan designed to protect and enhance the Mississippi River and related shoreland areas within the counties.

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 8 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

C. Joint Ventures (Continued)

Mississippi Headwaters Board (Continued)

Separate financial information can be obtained from:

Mississippi Headwaters Board
Land Services Building
322 Laurel Street
Brainerd, Minnesota 56401
Email: mhb@mississippiheadwaters.org

Itasca County Family Service Collaborative

The Itasca County Family Service Collaborative was established pursuant to Minnesota Statutes §124D.23. The Collaborative includes Itasca County; KOOTASCA Community Action, Inc.; and Independent School Districts 316, 317, 318, and 319. The purpose of the Collaborative is to improve the lives of families and children through efforts focused on prevention and early intervention. The Collaborative seeks to empower parents and families to solve their own problems through support, information, skill building, and advocacy.

Control of the Collaborative is vested in a board of directors. The County has three members on the Board. Financing is provided by state and federal grants, appropriations from the Collaborative members, and miscellaneous revenues. Itasca County provided \$12,000 in funding to the Collaborative during 2017. Itasca County is the fiscal agent for the Collaborative, which is accounted for as an agency fund. Collaborative agency fund assets and liabilities were \$336,946 as of December 31, 2017.

No separate financial statements are available.

Northeast Minnesota Regional Radio Board

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

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 8 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

D. Jointly-Governed Organizations

Northeast Minnesota Regional Radio Board (Continued)

Itasca County is the fiscal agent for the Northeast Minnesota Regional Radio Board, which is accounted for as an agency fund. Funding is provided by grants and contributions from participating members. Itasca County contributed no funding to this organization in 2017.

Western Mesabi Mine Planning Board

The Western Mesabi Mine Planning Board is governed by an 18-member board, composed of one elected official and one resident appointed by each respective county board, city council, and township board that is a party to the agreement. During 2017, Itasca County paid \$350 for membership dues to the Western Mesabi Mine Planning Board.

KOOTASCA Community Action, Inc.

KOOTASCA Community Action, Inc. is governed by an 18-member board appointed equally from each county. As discussed in Note 3.A.4, KOOTASCA Community Action, Inc., rents space from Itasca County.

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and is comprised of 25-member counties, including Itasca County. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, composed of ten directors, each with an alternate, who are appointed annually by each respective County Board. Itasca County paid \$2,100 for membership dues in 2017.

E. Related Organization

Housing and Redevelopment Authority of Itasca County

The five-member governing body of the Housing and Redevelopment Authority of Itasca County is appointed by Itasca County. Itasca County is not financially responsible for the Authority.

F. Tax-Forfeited Land

The County manages approximately 300,000 acres of state-owned, tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs, such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

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**REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MD&A**

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Taxes	\$ 17,949,066	\$ 17,949,066	\$ 17,425,097	\$ (523,969)
Licenses and Permits	41,000	41,000	76,866	35,866
Intergovernmental	6,200,856	6,200,856	7,473,421	1,272,565
Charges for Services	1,022,775	1,022,775	1,265,263	242,488
Fines and Forfeits	60,100	60,100	49,114	(10,986)
Gifts and Contributions	16,550	16,550	208,016	191,466
Investment Earnings	750,000	750,000	374,407	(375,593)
Miscellaneous	1,076,465	1,076,465	1,384,456	307,991
Total Revenues	27,116,812	27,116,812	28,256,640	1,139,828
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Commissioners	448,856	448,856	479,860	(31,004)
Courts	609,685	609,685	555,755	53,930
Law Library	47,025	47,025	59,083	(12,058)
County Administration	397,442	397,442	352,661	44,781
Human Resources	533,641	533,641	432,636	101,005
County Auditor/Treasurer	1,224,217	1,224,217	1,222,331	1,886
County Assessor	1,140,195	1,140,195	1,028,534	111,661
Elections	50,000	50,000	66,337	(16,337)
Accounting and Auditing	115,000	115,000	105,265	9,735
Data Processing	1,666,719	1,666,719	1,529,917	136,802
Attorney	1,665,636	1,665,636	1,678,894	(13,258)
Recorder	396,237	396,237	362,102	34,135
Surveyor	570,904	570,904	548,932	21,972
Planning and Zoning	375,249	375,249	317,245	58,004
Buildings and Plant	1,081,581	1,081,581	1,061,956	19,625
Veterans Service Officer	338,197	338,197	318,146	20,051
Other General Government	2,000	2,000	75,300	(73,300)
Severance	-	-	800,876	(800,876)
Total General Government	10,662,584	10,662,584	10,995,830	(333,246)
PUBLIC SAFETY				
Sheriff	5,896,104	5,896,104	6,357,215	(461,111)
Boat and Water Safety	145,093	145,093	216,211	(71,118)
Emergency Services	68,500	68,500	119,404	(50,904)
Civil Defense	222,383	222,383	234,328	(11,945)
Coroner	125,000	125,000	134,901	(9,901)
Federal Arrest Grant	-	-	54,475	(54,475)
E-911 System	-	-	114,048	(114,048)
County Jail	3,495,238	3,495,238	3,708,744	(213,506)
Victim Assistance	85,087	85,087	91,312	(6,225)
Probation and Parole	1,299,700	1,299,700	1,248,113	51,587
Safehavens Grant	175,000	175,000	117,867	57,133
Transitional Housing Grant	75,000	75,000	139,109	(64,109)
Snowmobile Safety	7,380	7,380	9,303	(1,923)
Other	46,350	46,350	194,445	(148,095)
Severance	-	-	1,071,187	(1,071,187)
Total Public Safety	11,640,835	11,640,835	13,810,662	(2,169,827)

The Notes to Required Supplementary Information are an Integral Part of this Schedule.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
EXPENDITURES (CONTINUED)				
CURRENT (CONTINUED)				
HIGHWAYS AND STREETS				
Severance	\$ -	\$ -	\$ 756,684	\$ (756,684)
SANITATION				
Septic Loans	-	-	49,740	(49,740)
Severance	-	-	17,481	(17,481)
Total Sanitation	-	-	67,221	(67,221)
CULTURE AND RECREATION				
Historical Society	110,000	110,000	122,776	(12,776)
CONSERVATION OF NATURAL RESOURCES				
County Extension	173,747	173,747	163,843	9,904
Shoreland Management	36,322	36,322	646	35,676
Aquatic Invasive Species	-	-	609,637	(609,637)
Soil and Water Conservation	-	-	54,595	(54,595)
Severance	-	-	163,156	(163,156)
Total Conservation of Natural Resources	210,069	210,069	991,877	(781,808)
CAPITAL OUTLAY				
General Government	257,750	257,750	181,893	75,857
Public Safety	196,000	196,000	245,310	(49,310)
Total Capital Outlay	453,750	453,750	427,203	26,547
Total Expenditures	26,559,153	26,559,153	29,846,002	(4,095,015)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	557,659	557,659	(1,589,362)	(2,955,187)
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Assets	-	-	15,000	15,000
Transfers In	20,050	20,050	1,144,537	1,124,487
Transfers Out	(342,709)	(342,709)	(1,302,824)	(960,115)
Total Other Financing Sources (Uses)	(322,659)	(322,659)	(143,287)	179,372
NET CHANGE IN FUND BALANCE	<u>\$ 235,000</u>	<u>\$ 235,000</u>	<u>(1,732,649)</u>	<u>\$ (2,775,815)</u>
Fund Balance - Beginning of Year			5,168,395	
FUND BALANCE - END OF YEAR			<u>\$ 3,435,746</u>	

The Notes to Required Supplementary Information are an Integral Part of this Schedule.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 7,366,502	\$ 7,366,502	\$ 7,307,230	\$ (59,272)
Intergovernmental	10,471,506	10,471,506	11,975,132	1,503,626
Charges for Services	1,545,000	1,545,000	1,185,286	(359,714)
Miscellaneous	94,500	94,500	373,648	279,148
Total Revenues	<u>19,477,508</u>	<u>19,477,508</u>	<u>20,841,296</u>	<u>1,363,788</u>
EXPENDITURES				
CURRENT				
HIGHWAYS AND STREETS				
Administration	616,541	616,541	534,386	82,155
Maintenance	6,949,800	6,949,800	6,144,270	805,530
Construction	1,128,840	1,128,840	977,313	151,527
Equipment Maintenance and Shop	3,231,327	3,231,327	2,562,640	668,687
Total Highways and Streets	<u>11,926,508</u>	<u>11,926,508</u>	<u>10,218,609</u>	<u>1,707,899</u>
CAPITAL OUTLAY				
Highways and Streets	<u>7,601,000</u>	<u>7,601,000</u>	<u>9,061,713</u>	<u>(1,460,713)</u>
Total Expenditures	<u>19,527,508</u>	<u>19,527,508</u>	<u>19,280,322</u>	<u>247,186</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(50,000)	(50,000)	1,560,974	1,610,974
OTHER FINANCING SOURCES (USES)				
Transfers Out	-	-	(250,000)	(250,000)
Proceeds from Sale of Assets	50,000	50,000	36,800	(13,200)
Total Other Financing Sources (Uses)	<u>50,000</u>	<u>50,000</u>	<u>(213,200)</u>	<u>(263,200)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>1,347,774</u>	<u>\$ 1,347,774</u>
Fund Balance - Beginning of Year			11,399,813	
Increase in Inventories			<u>231,432</u>	
FUND BALANCE - END OF YEAR			<u>\$ 12,979,019</u>	

The Notes to Required Supplementary Information are an Integral Part of this Schedule.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Taxes	\$ 11,946,363	\$ 11,946,363	\$ 12,091,820	\$ 145,457
Intergovernmental	8,205,869	8,205,869	10,941,470	2,735,601
Charges for Services	2,691,136	2,691,136	3,318,643	627,507
Investment Earnings	5,000	5,000	11,094	6,094
Miscellaneous	163,700	163,700	371,210	207,510
Total Revenues	23,012,068	23,012,068	26,734,237	3,722,169
EXPENDITURES				
CURRENT				
HUMAN SERVICES				
Income Maintenance	8,296,434	8,296,434	8,103,198	193,236
Social Services	12,379,644	12,379,644	15,804,068	(3,424,424)
Total Human Services	20,676,078	20,676,078	23,907,266	(3,231,188)
HEALTH				
Nursing Service	2,320,990	2,320,990	2,493,473	(172,483)
Environmental Health	-	-	(3,232)	3,232
Total Health	2,320,990	2,320,990	2,490,241	(169,251)
CAPITAL OUTLAY				
Human Services	19,800	19,800	7,048	12,752
Total Expenditures	23,016,868	23,016,868	26,404,555	(3,387,687)
DEFICIENCY OF REVENUES OVER EXPENDITURES	(4,800)	(4,800)	329,682	334,482
OTHER FINANCING SOURCES (USES)				
Transfers In	4,800	4,800	-	(4,800)
Transfers Out	-	-	(250,000)	(250,000)
Total Other Financing Sources (Uses)	4,800	4,800	(250,000)	(254,800)
NET CHANGE IN FUND BALANCE	\$ -	\$ -	79,682	\$ 79,682
Fund Balance - Beginning of Year			7,164,855	
FUND BALANCE - END OF YEAR			\$ 7,244,537	

The Notes to Required Supplementary Information are an Integral Part of this Schedule.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS PLAN
CURRENT AND TWO PRECEDING VALUATIONS**

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
County:	12/31/2016	\$ -	\$ 44,361,148	\$ 44,361,148	- %	\$ 26,114,018	169.9 %
	12/31/2014	-	83,996,021	83,996,021	-	24,711,813	339.9
	12/31/2012	-	83,550,089	83,550,089	-	22,493,678	371.4
Nursing Home:	9/30/2014	\$ -	\$ 824,494	\$ 824,494	- %	\$ 4,865,927	16.9 %
	9/30/2011	-	813,558	813,558	-	3,868,622	21.0
	9/30/2008	-	1,138,640	1,138,640	-	3,868,671	29.4

The latest actuarial study was done for Itasca County for the fiscal year ended December 31, 2016 (September 30, 2014 for the Nursing Home). The change in the liability was primarily due to the County implementing a Medicare supplement plan through Blue Cross Blue Shield effective as of January 1, 2017, which decreased the Unfunded Actuarial Accrued Liability by approximately \$39.5 million. Other factors that contributed to the change in liability included lowering the discount rate from 4.00% to 3.78%, modifying the assumed mortality, disability, withdrawal, retirement, and salary increase rates, decreasing the percentage of future retirees assumed to have an eligible spouse who also opts for health coverage at retirement, and updates to retiree contributions, per capital health costs, and future trend rates on such costs.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
PERA GENERAL EMPLOYEES RETIREMENT PLAN
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
YEAR ENDED DECEMBER 31, 2017**

Measurement Date	Employer's Portion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with Itasca County	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability	Covered Payroll	Employer's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.339 %	\$ 26,691,229	\$ 272,480	\$ 26,963,709	\$ 21,867,762	122.057 %	75.90 %
2016	0.413	33,566,030	438,281	34,004,311	25,589,159	131.173	68.91
2015	0.414	21,445,264	N/A	21,445,264	24,805,421	86.454	78.20

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

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

Year Ending	Statutorily Required Contributions	Actual Contributions in Relation to Statutorily Required Contributions	Contribution (Deficiency) Excess	Covered Payroll	Actual Contributions as a Percentage of Covered Payroll
2017	\$ 1,574,355	\$ 1,574,355	\$ -	\$ 20,991,400	7.50 %
2016	1,929,767	1,929,767	-	25,730,226	7.50
2015	1,975,704	1,936,041	39,663	26,342,718	7.35

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 Nursing Home's year-end is September 30.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
PERA PUBLIC EMPLOYEES POLICE AND FIRE RETIREMENT PLAN
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
YEAR ENDED DECEMBER 31, 2017**

Measurement Date	Employer's Portion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Covered Payroll	Employer's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.357 %	\$ 4,819,925	\$ 3,620,065	133.14 %	85.40 %
2016	0.339	13,604,660	3,266,786	416.45	63.88
2015	0.357	4,056,355	3,273,052	123.93	86.60

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

**PERA PUBLIC EMPLOYEES POLICE AND FIRE RETIREMENT PLAN
SCHEDULE OF CONTRIBUTIONS
YEAR ENDED DECEMBER 31, 2017**

Year Ending	Statutorily Required Contributions	Actual Contributions in Relation to Statutorily Required Contributions	Contribution (Deficiency) Excess	Covered Payroll	Actual Contributions as a Percentage of Covered Payroll
2017	\$ 586,451	\$ 586,451	\$ -	\$ 3,620,067	16.20 %
2016	542,416	542,416	-	3,348,250	16.20
2015	557,322	557,322	-	3,440,261	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.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
PERA PUBLIC EMPLOYEES CORRECTIONAL RETIREMENT PLAN
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
YEAR ENDED DECEMBER 31, 2017**

Measurement Date	Employer's Portion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Covered Payroll	Employer's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.600 %	\$ 1,710,006	\$ 1,207,719	141.590 %	67.90 %
2016	0.570	2,082,290	1,078,999	192.983	58.16
2015	0.560	86,576	1,004,779	8.616	96.90

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

**PERA PUBLIC EMPLOYEES CORRECTIONAL RETIREMENT PLAN
SCHEDULE OF CONTRIBUTIONS
YEAR ENDED DECEMBER 31, 2017**

Year Ending	Statutorily Required Contributions	Actual Contributions in Relation to Statutorily Required Contributions	Contribution (Deficiency) Excess	Covered Payroll	Actual Contributions as a Percentage of Covered Payroll
2017	\$ 105,675	\$ 105,675	\$ -	\$ 1,207,714	8.75 %
2016	97,475	97,475	-	1,113,853	8.75
2015	95,900	95,900	-	1,095,927	8.75

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017**

I. BUDGETARY INFORMATION

The County Board adopts an annual budget for the following major funds: The General Fund, Road and Bridge Special Revenue Fund, and Human Services Special Revenue Fund. These budgets are prepared on the modified accrual basis of accounting. Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds except for the Unorganized Towns Road and Bridge, Forfeited Tax, and Environmental Special Revenue Funds, and the Capital Projects Fund.

Based on a process established by the County Board, all departments of the County submit requests for appropriations to the County Administrator each year. After review, analysis, and discussions with the departments, the Administrator's proposed budget is presented to the County Board for review. The County Board holds public hearings and a final budget must be prepared and adopted no later than December 28.

The overall budget is prepared by fund, function, and department. The legal level of budgetary control – the level at which expenditures may not legally exceed appropriations – is the fund level. Budgets may be amended during the year with proper approval.

II. EXCESS OF EXPENDITURES OVER BUDGET

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

	<u>Actual Expenditures</u>	<u>Final Budget</u>	<u>Expenditures in Excess of Budget</u>
General Fund	\$ 29,846,002	\$ 26,559,153	\$ 3,286,849
Human Services Fund	26,404,555	23,016,868	3,387,687
Solid Waste Management Fund	1,733,915	1,651,912	82,003
Debt Service Fund	1,704,121	1,428,625	275,496

These over-expenditures were funded by greater than anticipated revenues in each fund, as well as existing fund balance.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017**

II. DEFINED BENEFIT PENSION PLANS – CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and nonvested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for nonvested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Police and Fire Fund

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

Correctional Fund

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

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SUPPLEMENTARY INFORMATION

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
DESCRIPTION OF FUNDS
YEAR ENDED DECEMBER 31, 2017**

NONMAJOR FUNDS

SPECIAL REVENUE FUNDS

The Forest Resources Fund is used to account for the operations of the County forests and payments from the state in lieu of taxes. Revenues for these activities are restricted by state statute.

The Solid Waste Management Fund is used to account for the operations and maintenance of all solid waste transfer stations. The primary revenue source is special assessments.

The Unorganized Towns Road and Bridge Fund is used to account for all funds to be used for construction and maintenance of highways and roads in unorganized townships. These activities are funded primarily through property tax revenues committed to this fund.

DEBT SERVICE FUND

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Property taxes are the primary revenue source restricted for repayment of debt through bond documents.

AGENCY FUNDS

The Taxes and Penalties Fund is used to account for the collection of taxes and penalties and their distribution to the various County funds and governmental units.

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

The Cities and Towns Fund is used to account for the collection of taxes and penalties and their distribution to the various cities and towns.

The School Districts Fund is used to account for the collection of taxes and penalties and their distribution to the various school districts.

The Special Districts Fund is used to account for funds of the collection of taxes and penalties and other revenues and their distribution to special taxing districts and unorganized fire departments.

The Itasca County Family Services Collaborative Fund is used to account for an interagency agreement between the County and school districts for the purpose of planning and coordination of family services within the County.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
DESCRIPTION OF FUNDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

AGENCY FUNDS (CONTINUED)

The Community Health Services Fund is used to account for the receipts and disbursements of Aitkin-Itasca-Koochiching Community Health Services Board.

The Northeast Minnesota Regional Radio Board Fund is used to account for the receipts and disbursements of the Northeast Minnesota Regional Radio Board for which the County is the fiscal agent.

The Arrowhead Procure Reserve Fund is used to account for the receipts and disbursements of the County's Arrowhead Procure Reserve.

The Itasca County Regional Radio Board Fund is used to account for the activity of the Itasca County Radio Board which is comprised of funds received from cities within the County for the purchase of new equipment in future years.

The Social Welfare Fund is used to account for collection and payment of funds for the County's social welfare fund clients.

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	Nonmajor Special Revenue Funds				Debt	Total
	Forest Resources	Solid Waste Management	Unorganized Towns Road and Bridge	Total Special Revenue Funds	Service Fund	Nonmajor Funds
ASSETS						
Cash and Pooled Investments	\$ -	\$ 2,243,260	\$ 4,039,072	\$ 6,282,332	\$ -	\$ 6,282,332
Restricted Cash	-	-	-	-	1,256,024	1,256,024
Petty Cash and Change Funds	25	300	-	325	-	325
Undistributed Cash in Agency Funds	-	44,675	102,182	146,857	61,771	208,628
Taxes Receivable - Delinquent	-	-	79,243	79,243	42,080	121,323
Special Assessments Receivable - Delinquent	-	248,402	-	248,402	-	248,402
Accounts Receivable	2,800	3,553	-	6,353	-	6,353
Due from Other Governments	5,382	12	7,593	12,987	-	12,987
Due from Other Funds	2,476,584	-	147,577	2,624,161	-	2,624,161
Total Assets	<u>\$ 2,484,791</u>	<u>\$ 2,540,202</u>	<u>\$ 4,375,667</u>	<u>\$ 9,400,660</u>	<u>\$ 1,359,875</u>	<u>\$ 10,760,535</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
LIABILITIES						
Accounts Payable	\$ 31,878	\$ 107,467	\$ -	\$ 139,345	\$ -	\$ 139,345
Salaries Payable	40,620	4,352	-	44,972	-	44,972
Due to Other Funds	794,122	-	-	794,122	421,094	1,215,216
Due to Other Governments	14,956	2,065	-	17,021	-	17,021
Total Liabilities	881,576	113,884	-	995,460	421,094	1,416,554
DEFERRED INFLOWS OF RESOURCES						
Unavailable Taxes	-	-	79,243	79,243	42,080	121,323
Unavailable Special Assessments	-	248,402	-	248,402	-	248,402
Property Taxes Levied for Subsequent Year	-	-	46,693	46,693	46,693	93,386
Total Deferred Inflows of Resources	-	248,402	125,936	374,338	88,773	463,111
FUND BALANCES						
Restricted for						
Natural Resource Management	1,603,215	-	-	1,603,215	-	1,603,215
Debt Service	-	-	-	-	850,008	850,008
Assigned for						
Unorganized Townships	-	-	4,249,731	4,249,731	-	4,249,731
Solid Waste Management	-	2,177,916	-	2,177,916	-	2,177,916
Total Fund Balances	<u>1,603,215</u>	<u>2,177,916</u>	<u>4,249,731</u>	<u>8,030,862</u>	<u>850,008</u>	<u>8,880,870</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,484,791</u>	<u>\$ 2,540,202</u>	<u>\$ 4,375,667</u>	<u>\$ 9,400,660</u>	<u>\$ 1,359,875</u>	<u>\$ 10,760,535</u>

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2017**

	Nonmajor Special Revenue Funds					
	Forest Resources	Solid Waste Management	Unorganized Towns Road and Bridge	Total Special Revenue Funds	Debt Service Fund	Total Nonmajor Funds
REVENUES						
Taxes	\$ -	\$ 35	\$ 1,504,298	\$ 1,504,333	\$ 1,347,226	\$ 2,851,559
Special Assessments	-	1,290,317	-	1,290,317	-	1,290,317
Licenses and Permits	-	480	-	480	-	480
Intergovernmental	781,579	132,441	137,742	1,051,762	89,362	1,141,124
Charges for Services	14,856	627,332	-	642,188	-	642,188
Miscellaneous	63,367	10,000	-	73,367	-	73,367
Total Revenues	859,802	2,060,605	1,642,040	4,562,447	1,436,588	5,999,035
EXPENDITURES						
CURRENT						
Highways and Streets	-	-	2,015,110	2,015,110	-	2,015,110
Sanitation	-	1,691,906	-	1,691,906	-	1,691,906
Culture and Recreation	624,144	-	-	624,144	-	624,144
Conservation of Natural Resources	890,079	-	-	890,079	-	890,079
DEBT SERVICE						
Principal	-	-	-	-	1,210,000	1,210,000
Interest	-	-	-	-	412,907	412,907
Administrative (Fiscal) Charges	-	-	-	-	81,214	81,214
CAPITAL OUTLAY						
Sanitation	-	42,009	-	42,009	-	42,009
Culture and Recreation	52,765	-	-	52,765	-	52,765
Conservation of Natural Resources	4,243	-	-	4,243	-	4,243
Total Capital Outlay	57,008	42,009	-	99,017	-	99,017
Total Expenditures	1,571,231	1,733,915	2,015,110	5,320,256	1,704,121	7,024,377
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(711,429)	326,690	(373,070)	(757,809)	(267,533)	(1,025,342)
OTHER FINANCING SOURCES (USES)						
Transfers In	1,063,632	-	147,577	1,211,209	-	1,211,209
Refunding Bonds Issued	-	-	-	-	2,705,000	2,705,000
Premium on Bonds Issued	-	-	-	-	253,969	253,969
Payments to Refunding Bond Escrow	-	-	-	-	(2,910,000)	(2,910,000)
Total Other Financing Sources (Uses)	1,063,632	-	147,577	1,211,209	48,969	1,260,178
NET CHANGE IN FUND BALANCES	352,203	326,690	(225,493)	453,400	(218,564)	234,836
Fund Balances - Beginning of Year	1,251,012	1,851,226	4,475,224	7,577,462	1,068,572	8,646,034
FUND BALANCES - END OF YEAR	\$ 1,603,215	\$ 2,177,916	\$ 4,249,731	\$ 8,030,862	\$ 850,008	\$ 8,880,870

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
FOREST RESOURCES SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 2,507,753	\$ 2,507,753	\$ -	\$ (2,507,753)
Intergovernmental	387,205	387,205	781,579	394,374
Charges for Services	12,000	12,000	14,856	2,856
Miscellaneous	-	-	63,367	63,367
Total Revenues	<u>2,906,958</u>	<u>2,906,958</u>	<u>859,802</u>	<u>(2,047,156)</u>
EXPENDITURES				
CURRENT				
CULTURE AND RECREATION				
Promotion	250,000	250,000	249,377	623
Parks	424,636	424,636	374,767	49,869
Total Culture and Recreation	<u>674,636</u>	<u>674,636</u>	<u>624,144</u>	<u>50,492</u>
CONSERVATION OF NATURAL RESOURCES				
Other	2,242,422	2,242,422	890,079	1,352,343
CAPITAL OUTLAY				
Culture and Recreation	2,700	2,700	52,765	(50,065)
Conservation of Natural Resources	48,000	48,000	4,243	43,757
Total Expenditures	<u>2,967,758</u>	<u>2,967,758</u>	<u>1,571,231</u>	<u>1,396,527</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(60,800)	(60,800)	(711,429)	(650,629)
OTHER FINANCING SOURCES (USES)				
Transfers In	60,800	60,800	1,063,632	1,002,832
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>352,203</u>	<u>\$ 352,203</u>
Fund Balance - Beginning of Year			<u>1,251,012</u>	
FUND BALANCE - END OF YEAR			<u><u>\$ 1,603,215</u></u>	

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
SOLID WASTE MANAGEMENT SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ -	\$ -	\$ 35	\$ 35
Special Assessments	961,712	961,712	1,290,317	328,605
Licenses and Permits	500	500	480	(20)
Intergovernmental	131,000	131,000	132,441	1,441
Charges for Services	550,000	550,000	627,332	77,332
Miscellaneous	8,700	8,700	10,000	1,300
Total Revenues	<u>1,651,912</u>	<u>1,651,912</u>	<u>2,060,605</u>	<u>408,693</u>
EXPENDITURES				
CURRENT				
SANITATION				
Solid Waste	1,636,912	1,636,912	1,691,906	(54,994)
CAPITAL OUTLAY				
Sanitation	<u>15,000</u>	<u>15,000</u>	<u>42,009</u>	<u>(27,009)</u>
Total Expenditures	<u>1,651,912</u>	<u>1,651,912</u>	<u>1,733,915</u>	<u>(82,003)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	326,690	<u>\$ 326,690</u>
Fund Balance - Beginning of Year			<u>1,851,226</u>	
FUND BALANCE - END OF YEAR			<u>\$ 2,177,916</u>	

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,428,625	\$ 1,428,625	\$ 1,347,226	\$ (81,399)
Intergovernmental	-	-	89,362	89,362
Total Revenues	<u>1,428,625</u>	<u>1,428,625</u>	<u>1,436,588</u>	<u>7,963</u>
EXPENDITURES				
DEBT SERVICE				
Principal Retirement	1,428,625	1,428,625	1,210,000	218,625
Interest	-	-	412,907	(412,907)
Administrative (Fiscal) Charges	-	-	81,214	(81,214)
Total Expenditures	<u>1,428,625</u>	<u>1,428,625</u>	<u>1,704,121</u>	<u>(275,496)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	(267,533)	(267,533)
OTHER FINANCING SOURCES				
Refunding Bonds Issued	-	-	2,705,000	2,705,000
Premium on Bonds Issued	-	-	253,969	253,969
Payments to Refunding Bond Escrow	-	-	(2,910,000)	(2,910,000)
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>48,969</u>	<u>48,969</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	(218,564)	<u>\$ (218,564)</u>
Fund Balance - Beginning of Year			<u>1,068,572</u>	
FUND BALANCE - END OF YEAR			<u>\$ 850,008</u>	

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2017**

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
ASSETS				
Cash and Pooled Investments	\$ 1,379,216	\$ 100,100,168	\$ 98,476,043	\$ 3,003,341
Due from Other Governmental Units	-	1,575,710	-	1,575,710
Total Assets	<u>\$ 1,379,216</u>	<u>\$ 101,675,878</u>	<u>\$ 98,476,043</u>	<u>\$ 4,579,051</u>
LIABILITIES				
Taxes Collected in Advance	\$ 25,089	\$ 2,185,027	\$ 1,272,003	\$ 938,113
Accounts Payable	-	1,478	-	1,478
Due to Other Governments	1,354,127	99,489,373	97,204,040	3,639,460
Total Liabilities	<u>\$ 1,379,216</u>	<u>\$ 101,675,878</u>	<u>\$ 98,476,043</u>	<u>\$ 4,579,051</u>
STATE				
ASSETS				
Cash and Pooled Investments	\$ 342,922	\$ 11,416,176	\$ 11,279,322	\$ 479,776
Accounts Receivable	-	2,359	68	2,291
Due from Other Governmental Units	-	22,780	22,738	42
Total Assets	<u>\$ 342,922</u>	<u>\$ 11,441,315</u>	<u>\$ 11,302,128</u>	<u>\$ 482,109</u>
LIABILITIES				
Due to Other Governments	<u>\$ 342,922</u>	<u>\$ 11,441,315</u>	<u>\$ 11,302,128</u>	<u>\$ 482,109</u>
CITIES AND TOWNS				
ASSETS				
Cash and Pooled Investments	\$ (1,036)	\$ 19,629,017	\$ 19,629,033	\$ (1,052)
Accounts Receivable	-	16	-	16
Total Assets	<u>\$ (1,036)</u>	<u>\$ 19,629,033</u>	<u>\$ 19,629,033</u>	<u>\$ (1,036)</u>
LIABILITIES				
Due to Other Governments	<u>\$ (1,036)</u>	<u>\$ 19,629,033</u>	<u>\$ 19,629,033</u>	<u>\$ (1,036)</u>
SCHOOL DISTRICTS				
ASSETS				
Cash and Pooled Investments	<u>\$ -</u>	<u>\$ 17,599,238</u>	<u>\$ 17,599,238</u>	<u>\$ -</u>
LIABILITIES				
Due to Other Governments	<u>\$ -</u>	<u>\$ 17,599,238</u>	<u>\$ 17,599,238</u>	<u>\$ -</u>

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)
AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2017**

	Balance January 1	Additions	Deductions	Balance December 31
SPECIAL DISTRICTS				
ASSETS				
Cash and Pooled Investments	\$ 3,695	\$ 1,639,695	\$ 1,492,352	\$ 151,038
Due from Other Governmental Units	-	3,486	-	3,486
Total Assets	<u>\$ 3,695</u>	<u>\$ 1,643,181</u>	<u>\$ 1,492,352</u>	<u>\$ 154,524</u>
LIABILITIES				
Accounts Payable	\$ -	\$ 992	\$ -	\$ 992
Due to Other Governments	3,695	1,642,189	1,492,352	153,532
Total Liabilities	<u>\$ 3,695</u>	<u>\$ 1,643,181</u>	<u>\$ 1,492,352</u>	<u>\$ 154,524</u>
ITASCA COUNTY FAMILY SERVICES COLLABORATIVE				
ASSETS				
Cash and Pooled Investments	<u>\$ 220,473</u>	<u>\$ 350,052</u>	<u>\$ 233,579</u>	<u>\$ 336,946</u>
LIABILITIES				
Due to Other Governments	<u>\$ 220,473</u>	<u>\$ 350,052</u>	<u>\$ 233,579</u>	<u>\$ 336,946</u>
COMMUNITY HEALTH SERVICES				
ASSETS				
Cash and Pooled Investments	\$ 455,800	\$ 1,753,907	\$ 2,011,473	\$ 198,234
Due from Other Governmental Units	34,254	102,949	-	137,203
Total Assets	<u>\$ 490,054</u>	<u>\$ 1,856,856</u>	<u>\$ 2,011,473</u>	<u>\$ 335,437</u>
LIABILITIES				
Due to Other Governments	<u>\$ 490,054</u>	<u>\$ 1,856,856</u>	<u>\$ 2,011,473</u>	<u>\$ 335,437</u>
NORTHEAST MINNESOTA REGIONAL RADIO BOARD				
ASSETS				
Cash and Pooled Investments	<u>\$ 248,537</u>	<u>\$ 612,144</u>	<u>\$ 544,669</u>	<u>\$ 316,012</u>
LIABILITIES				
Due to Other Governments	<u>\$ 248,537</u>	<u>\$ 612,144</u>	<u>\$ 544,669</u>	<u>\$ 316,012</u>

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)
AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2017**

	Balance January 1	Additions	Deductions	Balance December 31
ARROWHEAD PROCARE RESERVE				
ASSETS				
Cash and Pooled Investments	\$ 1,494,921	\$ 10,800,250	\$ 12,084,470	\$ 210,701
LIABILITIES				
Due to Other Governments	\$ 1,494,921	\$ 10,800,250	\$ 12,084,470	\$ 210,701
ITASCA COUNTY REGIONAL RADIO BOARD				
ASSETS				
Cash and Pooled Investments	\$ 623,478	\$ 100,710	\$ 106,090	\$ 618,098
LIABILITIES				
Due to Other Governments	\$ 623,478	\$ 100,710	\$ 106,090	\$ 618,098
SOCIAL WELFARE				
ASSETS				
Cash and Pooled Investments	\$ 216,540	\$ 2,097,343	\$ 2,062,642	\$ 251,241
LIABILITIES				
Funds Held in Trust	\$ 216,540	\$ 2,097,343	\$ 2,062,642	\$ 251,241
TOTAL ALL AGENCY FUNDS				
ASSETS				
Cash and Pooled Investments	\$ 4,984,546	\$ 166,098,700	\$ 165,518,911	\$ 5,564,335
Accounts Receivable	-	2,375	68	2,307
Due from Other Governmental Units	34,254	1,704,925	22,738	1,716,441
Total Assets	\$ 5,018,800	\$ 167,806,000	\$ 165,541,717	\$ 7,283,083
LIABILITIES				
Funds Held in Trust	\$ 216,540	\$ 2,097,343	\$ 2,062,642	\$ 251,241
Taxes Collected in Advance	25,089	2,185,027	1,272,003	938,113
Accounts Payable	-	2,470	-	2,470
Due to Other Governments	4,777,171	163,521,160	162,207,072	6,091,259
Total Liabilities	\$ 5,018,800	\$ 167,806,000	\$ 165,541,717	\$ 7,283,083

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE
YEAR ENDED DECEMBER 31, 2017**

Appropriations and Shared Revenue:

State:

Highway Users Tax	\$ 9,939,097
County Program Aid	1,940,022
Market Value Credit	135,029
PERA Rate Reimbursement	90,657
Disparity Reduction Aid	159,184
Police Aid	351,227
E-911	126,359
Taconite Credit	588,944
Supplemental Aid	1,722,361
Aquatic Invasive Species	621,123
Riparian Aid	40,000
Casino Revenue Aid	215,419
Total Appropriations and Shared Revenue	<u>15,929,422</u>

Reimbursement for Services:

MN Department of Human Services	1,113,559
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Payments:

State:

Payment in Lieu of Taxes	1,131,566
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Local:

Local Contributions	1,528,698
Total Payments	<u>2,660,264</u>

Grants:

Minnesota Department of

Corrections	414,160
Human Services	4,339,322
Natural Resources	184,759
Peace Officers (POST)	17,804
Public Safety	65,585
Employment and Economic Development	81,709
Pollution Control Agency	132,383
Water and Soil Resources	86,302
Total State	<u>5,322,024</u>

Federal:

Agriculture	899,455
Interior	419,407
Justice	369,642
Transportation	529,852
Health and Human Services	4,181,779
Homeland Security	151,544
Total Federal	<u>6,551,679</u>
Total State and Federal Grants	<u>11,873,703</u>

Total Intergovernmental Revenue	<u><u>\$ 31,576,948</u></u>
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**REPORTS RELATED TO GOVERNMENT AUDITING STANDARDS
AND SINGLE AUDIT**

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

Board of County Commissioners
Itasca County
Grand Rapids, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Itasca County, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Itasca County's basic financial statements, and have issued our report thereon dated September 30, 2018.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as items 2017-001 to 2017-004.

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies as items 2017-005 to 2017-006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Itasca 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*.

Itasca County's Responses to Findings

Itasca County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Itasca 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 and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Itasca County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Itasca County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Brainerd, Minnesota
September 30, 2018

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

Board of County Commissioners
Itasca County
Grand Rapids, Minnesota

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

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

Opinion on Each Major Federal Program

In our opinion, Itasca 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, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-007 to 2017-011. Our opinion on each major federal program is not modified with respect to these matters.

Itasca County's Responses to Findings

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

Report on Internal Control Over Compliance

Management of Itasca 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 Itasca 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 Itasca County's internal control over compliance.

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

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

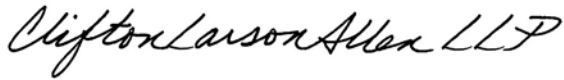
A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-008 to 2017-011 to be significant deficiencies.

Itasca County's Responses to Findings

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

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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Brainerd, Minnesota
September 30, 2018

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2017**

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted?

 yes X no

Federal Awards

Internal control over major programs:

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

 X yes no

Identification of major programs:

CFDA Numbers

93.778

93.563

Name of Federal Program or Cluster

Medical Assistance Program (Medicaid Cluster)

Child Support Enforcement

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 yes X no

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2017**

SECTION II – FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES (FINANCIAL REPORTING)

AUDIT ADJUSTMENTS (2017-001)

Criteria: County management is responsible for establishing and maintaining internal controls for the proper recording of all County's receipts and disbursements, including reclassifications between funds and activity of all investing and savings accounts.

Condition and Context: As part of the audit, we proposed material adjustments for closing the County's books at year-end, recording of accruals, net pension liability and related deferred inflows and outflows of resources, reclassifications of fund balances between categories and revenues and expenditures to the proper accounts.

Cause: The County has a limited number of personnel.

Possible Effect: The design of the internal controls over recording revenues and expenditures, including reclassifications, could affect the ability of the County to detect or prevent errors, a misappropriation of assets, or fraudulent activity.

Repeat Finding: Prior year finding identified as Finding 2006-004.

Recommendation: We recommend County management be consistently aware of all procedures and processes involved in recording receipts, disbursements, and reclassifications, and develop internal control policies to ensure proper recording of these items. It was noted significant adjustments were made to capital expenditure accounts, therefore, we recommend a review of processes and procedures related to recording of capital asset additions.

VIEW OF RESPONSIBLE OFFICIAL AND PLANNED CORRECTIVE ACTION:

Contact Person: Gail Guck, Accounting Manager

Corrective Action Planned: A corrective action is in place.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2017**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

MATERIAL WEAKNESSES (FINANCIAL REPORTING) (CONTINUED)

FINANCIAL REPORTING PROCESS (2017-002)

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

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

Cause: The County has a limited number of personnel.

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

Repeat Finding: No.

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

VIEW OF RESPONSIBLE OFFICIAL AND PLANNED CORRECTIVE ACTION:

Contact Person: Gail Guck, Accounting Manager

Corrective Action Planned: A corrective action is in place.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2017**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

MATERIAL WEAKNESSES (FINANCIAL REPORTING) (CONTINUED)

CASH RECONCILIATION (2017-003)

Criteria: As part of sound financial controls over cash and investment balances, the County should reconcile its bank and investment accounts to its general ledger at the end of each calendar month.

Condition and Context: The County has not been able to completely reconcile the bank balances to the general ledger for December 2017.

Cause: Lack of management oversight.

Possible Effect: Absence of a complete and accurate reconciliation of the County's cash each month diminishes the ability of the County's management to prevent and detect fraud or error or present accurate financial information on a timely basis.

Repeat Finding: No.

Recommendation: We recommend the County reconcile cash on a monthly basis.

VIEW OF RESPONSIBLE OFFICIAL AND PLANNED CORRECTIVE ACTION:

Contact Person: Gail Guck, Accounting Manager

Corrective Action Planned: A corrective action is in place.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2017**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

MATERIAL WEAKNESSES (FINANCIAL REPORTING) (CONTINUED)

BUDGET RECONCILIATION (2017-004)

Criteria: Standard internal control procedures suggest the County review the budget in the general ledger system to the board approved budget each year.

Condition and Context: It was noted during our audit procedures that the County's general ledger system budget amounts do not reconcile to the board approved budget for 2017.

Cause: Lack of management oversight.

Possible Effect: The design of the internal controls over the budget process limits the ability of the County to provide accurate financial information for financial reporting purposes.

Repeat Finding: No.

Recommendation: We recommend the County implement procedures to ensure the board approved budget amounts are recorded in the general ledger system.

VIEW OF RESPONSIBLE OFFICIAL AND PLANNED CORRECTIVE ACTION:

Contact Person: Gail Guck, Accounting Manager

Corrective Action Planned: A corrective action is in place.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2017**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

SIGNIFICANT DEFICIENCIES (FINANCIAL REPORTING)

SEGREGATION OF DUTIES (2017-005)

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

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

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

Possible Effect: The lack of adequate segregation of duties can result in incorrect financial information, failure to detect misstatements or misappropriations, and the lack of adherence to the County's procedures.

Repeat Finding: No.

Recommendation: We recommend management be aware of the lack of segregation of duties within the accounting functions and provide oversight to ensure the internal control policies and procedures are being implemented by organization staff.

VIEW OF RESPONSIBLE OFFICIAL AND PLANNED CORRECTIVE ACTION:

Contact Person: Gail Guck, Accounting Manager

Corrective Action Planned: A corrective action is in place.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2017**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

SIGNIFICANT DEFICIENCIES (FINANCIAL REPORTING) (CONTINUED)

CONTROLS OVER INVENTORY ACTIVITY (2017-006)

Criteria: Standard internal control procedures suggest a process for monitoring inventory throughout the year, including withdrawals and year-end physical counts.

Condition and Context: It was noted during our audit procedures that the County's count sheets had quantities on hand included on them.

Cause: Past practice.

Possible Effect: County personnel may only tie the count on hand and not look for additional items that might not be on the list. Therefore, they may not have the complete and accurate physical count at year-end.

Repeat Finding: No.

Recommendation: We recommend the County establish a process to complete their year-end physical counts with count sheets that do not include the quantities on hand.

VIEW OF RESPONSIBLE OFFICIAL AND PLANNED CORRECTIVE ACTION:

Contact Person: Gail Guck, Accounting Manager

Corrective Action Planned: A corrective action is in place.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2017**

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS

CASFILE REVIEW (2017-007)

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

Federal Program Title: Medical Assistance Program (Medicaid Cluster)

CFDA Number: 93.778

Pass-Through Agency: Minnesota Department of Human Services

Pass-Through Numbers: 05-1705MN5ADM, 05-1705MN5MAP

Compliance Requirement Affected: Eligibility

Award Period: Year-Ended December 31, 2017

Type of Finding: Material Weakness in Internal Control over Compliance and Other Matter

Criteria: Standard internal control procedures recommend internal reviews over case file eligibility determinations to ascertain case workers are complying with state and federal requirements and correctly determining program eligibility.

Condition and Context: During inquiry and testing of case files reviews completed during 2017, it was noted that there were no case file reviews performed.

Questioned Costs: Not able to be determined.

Cause: Unknown.

Possible Effect: Errors made in determining eligibility may not be discovered and benefits may be issued to clients who are not eligible.

Repeat Finding: No.

Recommendation: We recommend the County review case files on a periodic basis throughout the year.

VIEW OF RESPONSIBLE OFFICIAL AND PLANNED CORRECTIVE ACTION:

Contact Person: Eric Villanueva, Health and Human Services Director

Corrective Action Planned: A corrective action is in place.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2017**

**SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS
(CONTINUED)**

INCOME THRESHOLDS (2017-008)

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

Federal Program Title: Medical Assistance Program (Medicaid Cluster)

CFDA Number: 93.778

Pass-Through Agency: Minnesota Department of Human Services

Pass-Through Numbers: 05-1705MN5ADM, 05-1705MN5MAP

Compliance Requirement Affected: Eligibility

Award Period: Year-Ended December 31, 2017

Type of Finding: Significant Deficiency in Internal Control over Compliance and Other Matter

Criteria: All individuals receiving Medical Assistance must meet specific income guidelines to be eligible.

Condition and Context: During our testing of 60 casefiles, it was noted that three individuals had information in the County's case management system (OnBase) updated with current income information, but the eligibility software (MAXIS) did not contain the updated information.

Questioned Costs: Not able to be determined.

Cause: Lack of management oversight.

Possible Effect: Errors made in determining eligibility may not be discovered and benefits may be issued to clients who are not eligible.

Repeat Finding: No.

Recommendation: We recommend the County review income verification for each eligible case file.

VIEW OF RESPONSIBLE OFFICIAL AND PLANNED CORRECTIVE ACTION:

Contact Person: Eric Villanueva, Health and Human Services Director

Corrective Action Planned: A corrective action is in place.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2017**

**SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS
(CONTINUED)**

ASSET THRESHOLDS (2017-009)

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

Federal Program Title: Medical Assistance Program (Medicaid Cluster)

CFDA Number: 93.778

Pass-Through Agency: Minnesota Department of Human Services

Pass-Through Numbers: 05-1705MN5ADM, 05-1705MN5MAP

Compliance Requirement Affected: Eligibility

Award Period: Year-Ended December 31, 2017

Type of Finding: Significant Deficiency in Internal Control over Compliance and Other Matter

Criteria: All individuals receiving Medical Assistance must meet specific asset guidelines to be eligible.

Condition and Context: During our testing of 60 casefiles, it was noted that eleven individuals had information in the County's case management system (OnBase) updated with current income information, but the eligibility software (MAXIS) did not contain the updated information.

Questioned Costs: Not able to be determined.

Cause: Lack of management oversight.

Possible Effect: Errors made in determining eligibility may not be discovered and benefits may be issued to clients who are not eligible.

Repeat Finding: No.

Recommendation: We recommend the County review asset verification for each eligible case file.

VIEW OF RESPONSIBLE OFFICIAL AND PLANNED CORRECTIVE ACTION:

Contact Person: Eric Villanueva, Health and Human Services Director

Corrective Action Planned: A corrective action is in place.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2017**

**SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS
(CONTINUED)**

ANNUAL RENEWAL (2017-010)

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

Federal Program Title: Medical Assistance Program (Medicaid Cluster)

CFDA Number: 93.778

Pass-Through Agency: Minnesota Department of Human Services

Pass-Through Numbers: 05-1705MN5ADM, 05-1705MN5MAP

Compliance Requirement Affected: Eligibility

Award Period: Year-Ended December 31, 2017

Type of Finding: Significant Deficiency in Internal Control over Compliance and Other Matter

Criteria: Standard internal control procedures suggest retention of documentation to support eligibility determination.

Condition and Context: During our testing of 60 casefiles, it was noted that one individual did not have the annual application on file.

Questioned Costs: Not able to be determined.

Cause: Unknown.

Possible Effect: Errors made in determining eligibility may not be discovered and benefits may be issued to clients who are not eligible.

Repeat Finding: No.

Recommendation: We recommend the County retain all applications and documentation for each case file.

VIEW OF RESPONSIBLE OFFICIAL AND PLANNED CORRECTIVE ACTION:

Contact Person: Eric Villanueva, Health and Human Services Director

Corrective Action Planned: A corrective action is in place.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2017**

**SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS
(CONTINUED)**

RANDOM MOMENT STUDIES (2017-011)

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

Federal Program Title: Medical Assistance Program (Medicaid Cluster)

CFDA Number: 93.778

Pass-Through Agency: Minnesota Department of Human Services

Pass-Through Numbers: 05-1705MN5ADM, 05-1705MN5MAP

Compliance Requirement Affected: Eligibility

Award Period: Year-Ended December 31, 2017

Type of Finding: Significant Deficiency in Internal Control over Compliance and Other Matter

Criteria: Federal guidelines for these programs allow some costs to be allocated indirectly. The state of Minnesota uses a Random Moment Study (RMS) to allocate payroll indirectly to the income maintenance and social services programs.

Condition and Context: During our testing of the 2nd and 3rd quarter reports, it was noted the County's listing of employees submitted did not match the listing of employees whose wages were included for reimbursement. For both 2nd and 3rd quarter for the income maintenance program, there were two employees who were not included on the RMS listing but had wages reported in the time study portion of the quarterly report. For both 2nd and 3rd quarter for the social services program, there was one employee who was not included on the RMS listing but had wages reported in the time study portion of the quarterly report.

Questioned Costs: Not able to be determined.

Cause: Unknown.

Possible Effect: Minnesota Department of Human Services did not have accurate listings on income maintenance and social services employees with caseloads, potentially creating an inaccurate amount of indirect costs to be reimbursed to the County for this program.

Repeat Finding: No.

Recommendation: We recommend the County review the RMS listings and general ledger coding on a regular basis to ensure the correct employees are listed.

VIEW OF RESPONSIBLE OFFICIAL AND PLANNED CORRECTIVE ACTION:

Contact Person: Eric Villanueva, Health and Human Services Director

Corrective Action Planned: A corrective action is in place.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2017**

OTHER ITEMS FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE

TIMELY PAYMENT OF CLAIMS (2017-012)

Criteria: Minnesota Statutes §471.425 requires prompt payment of local government bills with the standard timeline of 35 days from the receipt of the invoice.

Condition and Context: During audit procedures, it was noted that one out of forty invoices was not paid within the standard timeline of 35 days from the receipt of the invoice.

Cause: Unknown.

Possible Effect: The County is not in compliance with Minnesota Statutes §471.425 and is at an increased risk of incurring late fees by not paying items in a timely manner.

Repeat Finding: No.

Recommendation: We recommend the County implement procedures to ensure timely payment of all claims.

CLIENT'S RESPONSE:

The County will review statutes and ensure timely payment of claims.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2017**

OTHER ITEMS FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE (CONTINUED)

UNCLAIMED PROPERTY TAX OVERPAYMENT (2017-013)

Criteria: Minnesota Statutes §276.19 subd. 2 requires that the County must publish a Notice of Unclaimed Property Tax Refunds for property tax overpayments over three years old.

Condition and Context: The County has not published this notice.

Cause: Unknown.

Possible Effect: The County is not in compliance with Minnesota Statutes §276.19 subd. 2.

Repeat Finding: No.

Recommendation: We recommend the County publish a Notice of Unclaimed Property Tax Refunds for refunds exceeding three years.

CLIENT'S RESPONSE:

The County will review statutes and publish the notice for refunds exceeding three years.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017**

Federal Grantor Pass Through Agency Program or Cluster Title	Federal CFDA Number	Pass-through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Passed Through Aitkin-Itasca-Koochiching Community Health Services Board Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	172MN004W1003	\$ 145,596	\$ -
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Part of Supplemental Nutrition Assistance Program Cluster)	10.561	16162MN101S2514	413,713	-
Passed Through Minnesota Department of Natural Resources Cooperative Forestry Assistance	10.664	83386	154,526	-
Passed Through Minnesota Management & Budget Schools and Roads - Grants to States (Part of Schools and Roads - Grants to State Cluster)	10.665	G9RUSDFORESTRY	185,618	-
Total Department of Agriculture			899,453	-
U.S. Department of Interior				
Direct				
Payments in Lieu of Taxes	15.226	N/A	419,407	-
U.S. Department of Justice				
Direct				
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	N/A	105,884	-
Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault	16.736	N/A	139,109	139,109
Passed Through Minnesota Department of Public Safety Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	124,649	-
Total Department of Justice			369,642	139,109
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation				
Highway Planning and Construction (Part of Highway Planning and Construction Cluster)	20.205	T1C082	\$ 4,906	
(Total expenditures for Highway Planning and Construction Cluster \$524,054)		T1A712	1,404	
		T1C095	175,520	
		T1C097	143,913	
		T1C086	36,907	
		T1C091	1,404	-
Passed Through Minnesota Department of Natural Resources Recreational Trails Program (Part of Highway Planning and Construction Cluster)	20.219	0034-15-2A	160,000	-
(Total expenditures for Highway Planning and Construction Cluster \$524,054)				
Passed Through Minnesota Department of Public Safety				
State and Community Highway Safety (Part of Highway Safety Cluster)	20.600	F-SAFE17-2017-ITASCACO- 2450	7,202	-
Total Department of Transportation			531,256	-

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

Federal Grantor Pass Through Agency Program or Cluster Title	Federal CFDA Number	Pass-through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services				
Passed Through Aitkin-Itasca-Koochiching Community Health Services Board				
Public Health Emergency Preparedness	93.069	65449	\$ 30,212	\$ -
Temporary Assistance for Needy Families (Part of TANF Cluster)	93.558	12-700-00053	68,421	-
(Total Temporary Assistance for Needy Families 93.558 \$599,616)				
Maternal and Child Health Services Block Grant to the States	93.994	B04MC30621	61,364	-
Passed Through Minnesota Department of Human Services				
Promoting Safe and Stable Families	93.556	G-1601MNFPS	61,590	-
Temporary Assistance for Needy Families (Part of TANF Cluster)	93.558	1601MNTANF	\$ 122,816	-
(Total Temporary Assistance for Needy Families 93.558 \$599,616)		1601MFTANF	<u>408,379</u>	-
Child Support Enforcement	93.563	1604MNCSES	214,688	-
		1604MNCEST	<u>1,052,171</u>	-
Refugee and Entrant Assistance - State Administered Programs	93.566	1601MNRCSA	946	-
Child Care and Development Block Grant (Part of Child Care Cluster)	93.575	G1601MNCCDF	10,829	-
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFPRG	2,643	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	11,126	-
Foster Care - Title IV-E	93.658	1601MNFOS	301,705	-
Social Services Block Grant	93.667	16-01MNSOSR	277,468	-
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	12,200	-
Children's Health Insurance Program	93.767	1605MN5021	512	-
Medical Assistance Program (Part of Medicaid Cluster)	93.778	05-1705MN5ADM	1,554,470	-
		05-1705MN5MAP	<u>15,779</u>	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	T1010027-15	<u>49,751</u>	-
Total Department of Health and Human Services			4,257,070	-

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

Federal Grantor Pass Through Agency Program or Cluster Title	Federal CFDA Number	Pass-through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	R29G4CGSFY15	\$ 9,500	\$ -
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	F-EMPG-2016-ITASCACO- 1746	41,294	-
Homeland Security Grant Program	97.067	F-SHSP-2015-HSEM1ITA	100,750	-
Total Department of Homeland Security			151,544	-
Total Federal Awards			<u>\$ 6,628,372</u>	<u>\$ 139,109</u>

Notes:

The schedule of expenditures of federal awards presents the activity of federal award programs expended by Itasca County. The County's reporting entity is defined in Note 1 to the basic financial statements.

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

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Itasca County has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Reconciliation to the Schedule of Intergovernmental Revenue:

Federal Grant Revenue per Schedule of Intergovernmental Revenue:	\$ 6,551,679
Grants Received More than 60 days After Year-End Unavailable in 2017:	
Temporary Assistance for Needy Families	132,227
Promoting Safe and Stable Families	5,753
Stephanie Tubbs Jones Child Welfare Services Program	1,109
Chafee Foster Care Independence Program	3,860
Child Support Enforcement	36,796
Highway Planning and Construction	1,404
Unavailable in 2016, Recognized as Revenue in 2017:	
Temporary Assistance for Needy Families	(1,017)
Promoting Safe and Stable Families	(670)
Stephanie Tubbs Jones Child Welfare Services Program	(3,463)
Chafee Foster Care Independence Program	(99,306)
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 6,628,372</u>

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**INDEPENDENT AUDITORS' REPORT
ON MINNESOTA LEGAL COMPLIANCE**

Board of County Commissioners
Itasca County
Grand Rapids, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Itasca County (the County), Minnesota, as of December 31, 2017 and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated September 30, 2018.

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

In connection with our audit, nothing came to our attention that caused us to believe that the County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* except for the item described in detail in the attached schedule of findings and questioned costs as items 2017-012 to 2017-013. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

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

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



CliftonLarsonAllen LLP

Brainerd, Minnesota
September 30, 2018

**ITASCA COUNTY
CORRECTIVE ACTION PLAN
YEAR ENDED DECEMBER 31, 2017**

Itasca County respectfully submits the following corrective action plan for the year ended December 31, 2017.

Audit period: January 1, 2017 – December 31, 2017

The findings from the December 31, 2017 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS – FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

2017-001 AUDIT ADJUSTMENTS

Recommendation: It is recommended management be consistently aware of all procedures and processes involved in recording receipts, disbursements, and reclassifications, and develop internal control policies to ensure proper recording of these items.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The County will continue to work at eliminating the need for audit adjustments through learning about new GASB standards and reviewing work performed by department personnel.

Name of the contact person responsible for corrective action plan: Gail Guck, Accounting Manager

Planned completion date for corrective action plan: December 31, 2018

FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

MATERIAL WEAKNESSES (CONTINUED)

2017-002 FINANCIAL REPORTING PROCESS

Recommendation: It is recommended County management be aware of the responsibilities regarding financial reporting and continue to evaluate the cost/benefit of outsourcing this function. If management chooses to undertake these financial reporting responsibilities, a number of policies, procedures, and reviewed will need to be developed and implemented.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The County will review the financial reporting requirements and undertake them if deemed cost-beneficial.

Name of the contact person responsible for corrective action plan: Gail Guck, Accounting Manager

Planned completion date for corrective action plan: December 31, 2018

2017-003 CASH RECONCILIATIONS

Recommendation: It is recommended County reconcile cash on a monthly basis.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The County will review the accounting functions and reconcile cash on a monthly basis.

Name of the contact person responsible for corrective action plan: Gail Guck, Accounting Manager

Planned completion date for corrective action plan: December 31, 2018

2017-004 BUDGET RECONCILIATION

Recommendation: It is recommended County management implement procedures to ensure the board approved budget amounts are recorded in the general ledger system.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The County will review the accounting functions and review the board approved budget amounts to the general ledger system.

Name of the contact person responsible for corrective action plan: Gail Guck, Accounting Manager

Planned completion date for corrective action plan: December 31, 2018

FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

SIGNIFICANT DEFICIENCIES

2017-005 SEGREGATION OF DUTIES

Recommendation: It is recommended management be aware of the lack of segregation of duties within the accounting functions and provide oversight to ensure the internal control policies and procedures are being implemented by County staff.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The County will review the accounting functions and segregate them as deemed cost-beneficial.

Name of the contact person responsible for corrective action plan: Gail Guck, Accounting Manager

Planned completion date for corrective action plan: December 31, 2018

2017-006 CONTROLS OVER INVENTORY ACTIVITY

Recommendation: It is recommended that the County establish a process to complete their year-end physical count with count sheets that do not obtain the quantities on hand.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The County will review procedures and implement a process for year-end physical counts.

Name of the contact person responsible for corrective action plan: Gail Guck, Accounting Manager

Planned completion date for corrective action plan: December 31, 2018

MAJOR PROGRAM – MATERIAL WEAKNESS

2017-007 CASEFILE REVIEW

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

Federal Program Title: Medical Assistance Program

CFDA Number: 93.778

Pass-Through Agency: Minnesota Department of Human Services

Pass-Through Numbers: 05-1705MNADM, 05-1705MN5MAP

Compliance Requirement Affected: Eligibility

Award Period: Year-Ended December 31, 2017

Type of Finding: Material Weakness in Internal Control over Compliance

Recommendation: We recommend the County review case files on a periodic basis throughout the year.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The County will begin reviewing case files on a periodic basis throughout the year.

Name of the contact person responsible for corrective action plan: Eric Villanueva, Health and Human Services Director

Planned completion date for corrective action plan: December 31, 2018

MAJOR PROGRAM – SIGNIFICANT DEFICIENCIES

2017-008 INCOME THRESHOLDS

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

Federal Program Title: Medical Assistance Program

CFDA Number: 93.778

Pass-Through Agency: Minnesota Department of Human Services

Pass-Through Numbers: 05-1705MNADM, 05-1705MN5MAP

Compliance Requirement Affected: Eligibility

Award Period: Year-Ended December 31, 2017

Type of Finding: Significant Deficiency in Internal Control over Compliance

Recommendation: We recommend the County review income verification for each eligible case file.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The County will begin reviewing income verification for each case file.

Name of the contact person responsible for corrective action plan: Eric Villanueva, Health and Human Services Director

Planned completion date for corrective action plan: December 31, 2018

2017-009 ASSET THRESHOLDS

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

Federal Program Title: Medical Assistance Program

CFDA Number: 93.778

Pass-Through Agency: Minnesota Department of Human Services

Pass-Through Numbers: 05-1705MNADM, 05-1705MN5MAP

Compliance Requirement Affected: Eligibility

Award Period: Year-Ended December 31, 2017

Type of Finding: Significant Deficiency in Internal Control over Compliance

Recommendation: We recommend the County review asset verification for each eligible case file.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The County will begin reviewing asset verification for each case file.

Name of the contact person responsible for corrective action plan: Eric Villanueva, Health and Human Services Director

Planned completion date for corrective action plan: December 31, 2018

MAJOR PROGRAM – SIGNIFICANT DEFICIENCIES (CONTINUED)

2017-010 ANNUAL RENEWAL

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

Federal Program Title: Medical Assistance Program

CFDA Number: 93.778

Pass-Through Agency: Minnesota Department of Human Services

Pass-Through Numbers: 05-1705MNADM, 05-1705MN5MAP

Compliance Requirement Affected: Eligibility

Award Period: Year-Ended December 31, 2017

Type of Finding: Significant Deficiency in Internal Control over Compliance

Recommendation: We recommend the County retain all applications and documentation for each case file.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The County will review procedures and implement a process to retain all applications and documentation.

Name of the contact person responsible for corrective action plan: Eric Villanueva, Health and Human Services Director

Planned completion date for corrective action plan: December 31, 2018

2017-011 RANDOM MOMENTS STUDY

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

Federal Program Title: Medical Assistance Program

CFDA Number: 93.778

Pass-Through Agency: Minnesota Department of Human Services

Pass-Through Numbers: 05-1705MNADM, 05-1705MN5MAP

Compliance Requirement Affected: Eligibility

Award Period: Year-Ended December 31, 2017

Type of Finding: Significant Deficiency in Internal Control over Compliance

Recommendation: We recommend the County review the RMS listings and general ledger coding on a regular basis to ensure the correct employees are listed.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The County will review procedures and implement a process to ensure the correct employees are listed.

Name of the contact person responsible for corrective action plan: Eric Villanueva, Health and Human Services Director

Planned completion date for corrective action plan: December 31, 2018

OTHER ITEMS FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE

2017-012 TIMELY PAYMENT OF CLAIMS

Recommendation: It is recommended the County implement procedures to ensure timely payment of all claims.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The County will review the statute and will ensure timely payment on claims.

Name of the contact person responsible for corrective action plan: Gail Guck, Accounting Manager

Planned completion date for corrective action plan: December 31, 2018

2017-013 UNCLAIMED PROPERTY TAX OVERPAYMENT

Recommendation: It is recommended the County publish a Notice of Unclaimed Property Tax Refunds for refunds exceeding three years.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The County will review the statute and will publish the notice for refunds exceeding three years.

Name of the contact person responsible for corrective action plan: Gail Guck, Accounting Manager

Planned completion date for corrective action plan: December 31, 2018

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

2016-004 AUDIT ADJUSTMENTS

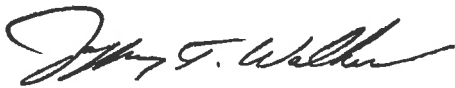
See current year finding 2017-001.

Reason for finding's recurrence: The County has unique transactions not in the normal course of business in 2017 that needed to be adjusted.

If involved agencies have any questions regarding this plan, please call Jeffrey T. Walker, County Auditor/Treasurer at 218-327-2860.

Sincerely yours,

Itasca County, Minnesota

A handwritten signature in black ink, appearing to read "Jeffrey T. Walker", written in a cursive style.

Jeffrey T. Walker, County Auditor/Treasurer

APPENDIX B

Form of Legal Opinion

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Offices in
Minneapolis 470 U.S. Bank Plaza
200 South Sixth Street
Minneapolis MN 55402-1458
Saint Paul (612) 337-9300 telephone
(612) 337-9310 fax
St. Cloud www.kennedy-graven.com
Affirmative Action, Equal Opportunity Employer

\$3,305,000
Itasca County, Minnesota
General Obligation Nursing Home Revenue Refunding Bonds
Series 2019A

We have acted as bond counsel to Itasca County, Minnesota (the "Issuer") in connection with the issuance by the Issuer of its General Obligation Nursing Home Revenue Refunding Bonds, Series 2019A (the "Bonds"), originally dated May 7, 2019, and issued in the original aggregate principal amount of \$3,305,000. In such capacity and for the purpose of rendering this opinion we have examined certified copies of certain proceedings, certifications and other documents, and applicable laws as we have deemed necessary. Regarding questions of fact material to this opinion, we have relied on certified proceedings and other certifications of public officials and other documents furnished to us without undertaking to verify the same by independent investigation. Under existing laws, regulations, rulings and decisions in effect on the date hereof, and based on the foregoing we are of the opinion that:

1. The Bonds have been duly authorized and executed, and are valid and binding general obligations of the Issuer, enforceable in accordance with their terms.

2. The principal of and interest on the Bonds are payable primarily from net revenues of the Grand Village Nursing Home, but if necessary for the payment thereof, ad valorem taxes are required by law to be levied on all taxable property in the Issuer, which taxes are not subject to any limitation as to rate or amount.

3. Interest on the Bonds is excludable from gross income of the recipient for federal income tax purposes and, to the same extent, is excludable from taxable net income of individuals, trusts, and estates for Minnesota income tax purposes, and is not a preference item for purposes of the computation of the federal alternative minimum tax, or the computation of the Minnesota alternative minimum tax imposed on individuals, trusts and estates. However, such interest is subject to Minnesota franchise taxes on corporations (including financial institutions) measured by income. The opinion set forth in this paragraph is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes and from taxable net income for Minnesota income tax purposes. The Issuer has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes and taxable net income for Minnesota income tax purposes retroactively to the date of issuance of the Bonds. We express no opinion regarding tax consequences arising with respect to the Bonds other than as expressly set forth herein.

4. The rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditor's rights generally and by equitable principles, whether considered at law or in equity.

We have not been asked and have not undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds, and accordingly we express no opinion with respect thereto.

This opinion is given as of the date hereof and we assume no obligation to update, revise, or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Dated May 7, 2019 at Minneapolis, Minnesota.

APPENDIX C

Form of Continuing Disclosure Certificate

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\$3,305,000
Itasca County, Minnesota
General Obligation Nursing Home Revenue Refunding Bonds
Series 2019A

CONTINUING DISCLOSURE CERTIFICATE

May 7, 2019

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by Itasca County, Minnesota (the “Issuer”) in connection with the issuance of its General Obligation Nursing Home Revenue Refunding Bonds, Series 2019A (the “Bonds”), in the original aggregate principal amount of \$3,305,000. The Bonds are being issued pursuant to resolutions adopted by the Board of Commissioners of the Issuer (the “Resolutions”). The Bonds are being delivered to Robert W. Baird & Co, Inc. as syndicate purchaser (the “Purchaser”) on the date hereof. Pursuant to the Resolutions, the Issuer has covenanted and agreed to provide continuing disclosure of certain financial information and operating data and timely notices of the occurrence of certain events. The Issuer hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Holders (as defined herein) of the Bonds in order to provide for the public availability of such information and assist the Participating Underwriter(s) (as defined herein) in complying with the Rule (as defined herein). This Disclosure Certificate, together with the Resolutions, constitutes the written agreement or contract for the benefit of the Holders of the Bonds that is required by the Rule.

Section 2. Definitions. In addition to the defined terms set forth in the Resolutions, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” means any annual report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Audited Financial Statements” means annual financial statements of the Issuer, prepared in accordance with GAAP as prescribed by GASB.

“Bonds” means the General Obligation Nursing Home Revenue Refunding Bonds, Series 2019A, issued by the Issuer in the original aggregate principal amount of \$3,305,000

“Disclosure Certificate” means this Continuing Disclosure Certificate.

“EMMA” means the Electronic Municipal Market Access system operated by the MSRB and designated as a nationally recognized municipal securities information repository and the exclusive portal for complying with the continuing disclosure requirements of the Rule.

“Final Official Statement” means the deemed final Official Statement, dated April 10, 2019, which constitutes the final official statement delivered in connection with the Bonds, which is available from the MSRB.

“Financial Obligation” means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation;

or (c) guarantee of a Financial Obligation as described in clause (a) or (b). The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Fiscal Year” means the fiscal year of the Issuer.

“GAAP” means generally accepted accounting principles for governmental units as prescribed by GASB.

“GASB” means the Governmental Accounting Standards Board.

“Holder” means the person in whose name a Bond is registered or a beneficial owner of such a Bond.

“Issuer” means Itasca County, Minnesota, which is the obligated person with respect to the Bonds.

“Material Event” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board located at 1300 I Street NW, Suite 1000, Washington, DC 20005.

“Participating Underwriter” means any of the original underwriter(s) of the Bonds (including the Purchaser) required to comply with the Rule in connection with the offering of the Bonds.

“Purchaser” means Robert W. Baird & Co, Inc. as syndicate purchaser.

“Repository” means EMMA, or any successor thereto designated by the SEC.

“Rule” means SEC Rule 15c2-12(b)(5) promulgated by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time, and including written interpretations thereof by the SEC.

“SEC” means Securities and Exchange Commission, and any successor thereto.

Section 3. Provision of Annual Financial Information and Audited Financial Statements.

(a) The Issuer shall provide to the Repository not later than twelve (12) months after the end of the Fiscal Year commencing with the year that ends December 31, 2018, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the Audited Financial Statements of the Issuer may be submitted separately from the balance of the Annual Report.

(b) If the Issuer is unable or fails to provide to the Repository an Annual Report by the date required in subsection (a), the Issuer shall send a notice of that fact to the Repository and the MSRB.

(c) The Issuer shall determine each year prior to the date for providing the Annual Report the name and address of each Repository.

Section 4. Content of Annual Reports. The Issuer’s Annual Report shall contain or incorporate by reference the following sections of the Final Official Statement:

1. Financial Summary and Indebtedness
2. Property Values and Taxes

In addition to the items listed above, the Annual Report shall include Audited Financial Statements submitted in accordance with Section 3 of this Disclosure Certificate.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to the Repository or the SEC. If the document incorporated by reference is a final official statement, it must also be available from the MSRB. The Issuer shall clearly identify each such other document so incorporated by reference.

Section 5. Reporting of Material Events.

(a) This Section 5 shall govern the giving of notice of the occurrence of any of the following events (“Material Events”) with respect to the Bonds:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
7. Modifications to rights of security holders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the obligated person;
13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material;
15. Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material; and
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

(b) The Issuer shall file a notice of such occurrence with the Repository or with the MSRB within ten (10) business days of the occurrence of the Material Event.

(c) Unless otherwise required by law and subject to technical and economic feasibility, the Issuer shall employ such methods of information transmission as shall be requested or recommended by the designated recipients of the Issuer's information.

Section 6. EMMA. The SEC has designated EMMA as a nationally recognized municipal securities information repository and the exclusive portal for complying with the continuing disclosure requirements of the Rule. Until the EMMA system is amended or altered by the MSRB and the SEC, the Issuer shall make all filings required under this Disclosure Certificate solely with EMMA.

Section 7. Termination of Reporting Obligation. The Issuer's obligations under the Resolutions and this Disclosure Certificate shall terminate upon the redemption in full of all Bonds or payment in full of all Bonds.

Section 8. Agent. The Issuer may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under the Resolutions and this Disclosure Certificate, and may discharge any such agent, with or without appointing a successor dissemination agent.

Section 9. Amendment; Waiver. Notwithstanding any other provision of the Resolutions or this Disclosure Certificate, the Issuer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of nationally recognized bond counsel to the effect that such amendment or waiver would not, in and of itself, cause a violation of the Rule. The provisions of the Resolutions requiring continuing disclosure pursuant to the Rule and this Disclosure Certificate, or any provision hereof, shall be null and void in the event that the Issuer delivers to the Repository an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which impose the continuing disclosure requirements of the Resolutions and the execution and delivery of this Disclosure Certificate are invalid, have been repealed retroactively or otherwise do not apply to the Bonds. The provisions of the Resolutions requiring continuing disclosure pursuant to the Rule and this Disclosure Certificate may be amended without the consent of the Holders of the Bonds, but only upon the delivery by the Issuer to the Repository of the proposed amendment and an opinion of nationally recognized bond counsel to the effect that such amendment, and giving effect thereto, will not adversely affect the compliance with the Rule.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Material Event, in addition to that which is required by this

Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Material Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Material Event.

Section 11. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate any Holder of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations under the Resolutions and this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default with respect to the Bonds and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Participating Underwriters, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

(The remainder of this page is intentionally left blank.)

IN WITNESS WHEREOF, we have executed this Disclosure Certificate in our official capacities effective as of the date and year first written above.

ITASCA COUNTY, MINNESOTA

(SEAL)

Chair

County Auditor/Treasurer

APPENDIX D

Specimen Municipal Bond Insurance Policy

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MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal
amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

200 Liberty Street, 27th floor

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

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