

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

CARLTON COUNTY
CARLTON, MINNESOTA

YEAR ENDED DECEMBER 31, 2017

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**CARLTON COUNTY
CARLTON, MINNESOTA**

Year Ended December 31, 2017



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**CARLTON COUNTY
CARLTON, MINNESOTA**

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CARLTON, MINNESOTA**

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**CARLTON COUNTY
CARLTON, MINNESOTA**

ORGANIZATION
AS OF DECEMBER 31, 2017

			<u>Term Expires</u>
Elected			
Commissioners			
Board Member	Dick Brenner	District 1	January 2021
Board Member	Marv Bodie	District 2	January 2019
Board Member	Thomas Proulx	District 3	January 2021
Board Member	Susan Zmyslony	District 4	January 2019
Board Chair	Gary Peterson	District 5	January 2021
Attorney	Thomas H. Pertler		January 2019
Auditor/Treasurer	Paul Gassert		January 2019
Sheriff	Kelly Lake		January 2019
Appointed			
Assessor	Kyle Holmes		January 2021
Recorder	Kristine Basilici		January 2019
Registrar of Titles	Kristine Basilici		January 2019
Highway Engineer	JinYeene Neumann		May 2022
Veterans Service Officer	Duane Brownie		January 2021
Surveyor	William Hayden		December 2017
County Coordinator	Dennis Genereau		Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Carlton County
Carlton, Minnesota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Basis for Adverse Opinion on Governmental Activities

As discussed in Note 1.D.4. to the financial statements, Carlton County has not reported capital assets, including infrastructure assets, in the governmental activities and, accordingly, has not reported depreciation expense on those assets and has not eliminated the related capital expenditures. Accounting principles generally accepted in the United States of America require that capital assets, including infrastructure assets, be capitalized and depreciated, which would increase the assets, net position, and change expenses of the governmental activities. The amount by which this departure affects the assets, net position, and expenses of the governmental activities is not reasonably determinable.

Also, as discussed in Note 1.D.9. to the financial statements, Carlton County has not reported its other postemployment benefits (OPEB) liability in the governmental activities and, accordingly, has not reported an expense for the current period change in the net OPEB obligation. Accounting principles generally accepted in the United States of America require that OPEB obligations, which arise from an exchange of salaries and benefits for employee services and are part of the compensation that employers offer for services received, and the annual OPEB costs be accrued as liabilities and expenses as the employees earn the right to benefits. Accruing OPEB costs would increase liabilities, reduce net position, and change the expenses of the governmental activities. The amount by which this departure affects the liabilities, net position, and expenses of the governmental activities is not reasonably determinable.

Adverse Opinion

In our opinion, because of the effects of the matters described in the "Basis for Adverse Opinion on Governmental Activities" section above, the financial statements do not present fairly, in all material respects, the financial position of the governmental activities of Carlton County as of December 31, 2017, or the changes in financial position thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Carlton County as of December 31, 2017, and respective changes in financial position thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Carlton County's basic financial statements. The other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2018, on our consideration of Carlton County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Carlton 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 Carlton County's internal control over financial reporting and compliance.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 13, 2018

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**CARLTON COUNTY
CARLTON, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017
(Unaudited)

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

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$9,528,319, of which \$8,864,980 is restricted for specific purposes.
- Carlton County's governmental activities' net position decreased by \$1,517,781 for the year ended December 31, 2017.
- The net cost of governmental activities was \$32,451,677 for the current fiscal year. The net cost was funded by general revenues totaling \$30,933,896.
- Governmental funds' fund balances decreased by \$164,877.
- Carlton County has not established capital asset records or recorded the related depreciation as required by Governmental Accounting Standards Board (GASB) Statement 34. Carlton County also has not determined the net other postemployment benefits liability as required by GASB Statement 45.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

There are two government-wide financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. For governmental activities, these statements tell how these

services were financed in the short term as well as what remains for future spending. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

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

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

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

In the Statement of Net Position and the Statement of Activities, all activities of the County are governmental, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.

Fund Financial Statements

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

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

Reporting the County's Fiduciary Responsibilities

The County is the trustee, or fiduciary, over assets that can be used only for the trust beneficiaries based on the trust arrangement. All of the County's fiduciary balances are reported in a separate Statement of Fiduciary Net Position. These activities are excluded from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE COUNTY AS A WHOLE

Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the County's governmental activities.

Table 1
Net Position
(in Thousands)

	<u>2017</u>	<u>2016</u>
Assets	\$ 46,991	\$ 46,029
Deferred Outflows of Resources		
Deferred pension outflows	\$ 8,539	\$ 14,855
Liabilities		
Long-term liabilities outstanding	\$ 33,971	\$ 43,637
Other liabilities	4,152	3,066
Total Liabilities	\$ 38,123	\$ 46,703
Deferred Inflows of Resources		
Deferred pension inflows and prepaid property taxes	\$ 7,879	\$ 3,135
Net Position		
Restricted	\$ 8,865	\$ 9,735
Unrestricted	663	1,311
Total Net Position	\$ 9,528	\$ 11,046

Table 2
Changes in Net Position
(in Thousands)

	2017	2016
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 8,050	\$ 7,223
Operating grants and contributions	16,794	17,550
Capital grants and contributions	905	665
General revenues		
Property taxes	25,165	24,001
Other taxes	2,407	2,143
Grants and contributions	2,795	3,027
Other general revenues	567	374
Total Revenues	\$ 56,683	\$ 54,983
Expenses		
Program expenses		
General government	\$ 8,740	\$ 8,228
Public safety	10,123	9,820
Culture and recreation	495	506
Highways and streets	15,808	13,858
Human services	17,315	17,168
Health	1,493	1,559
Sanitation	1,625	1,545
Conservation of natural resources	1,480	1,336
Economic development	947	540
Interest	175	543
Total Expenses	\$ 58,201	\$ 55,103
Increase (Decrease) in Net Position	\$ (1,518)	\$ (120)
Net Position, January 1	11,046	11,166
Net Position, December 31	\$ 9,528	\$ 11,046

Governmental Activities

The cost of all governmental activities this year was \$58,201,164. However, as shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through County taxes was only \$25,164,689, because some of the cost was paid by those who directly benefited from the programs (\$8,050,142) or by other governments and organizations that subsidized certain programs with grants and contributions (\$17,699,345).

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

**Table 3
Governmental Activities
(in Thousands)**

	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
General government	\$ 8,740	\$ 8,229	\$ 6,809	\$ 6,374
Public safety	10,123	9,820	9,220	8,832
Highways and streets	15,808	13,858	8,049	5,711
Human services	17,315	17,168	6,700	6,834
Sanitation	1,626	1,545	538	490
All others	4,589	4,483	1,136	1,424
Totals	\$ 58,201	\$ 55,103	\$ 32,452	\$ 29,665

THE COUNTY’S FUNDS

As the County completed the year, its governmental funds reported a combined fund balance of \$39,782,794, which is less than last year’s total of \$39,947,671. Included in this year’s total fund balance is a surplus of \$20,027,483 in the County’s General Fund. The overall decrease in the governmental funds was primarily due to a decrease in unrestricted funds in the Road and Bridge Special Revenue Fund.

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) for the County’s General Fund were over the final budget by \$135,915. The largest overage was in culture and recreation.

On the other hand, resources available for appropriation exceeded the final budget for the County’s General Fund by \$737,881. Collections were greater than expected in intergovernmental revenues, charges for services, and investment earnings, and less than expected for real estate taxes and miscellaneous revenues.

Fund balance was not anticipated to materially change for the year. Actual fund balance increased by \$425,309, due primarily to actual revenues exceeding the budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the County had not completed an inventory and historical cost analysis of its capital assets, including infrastructure. It is anticipated that the analysis will be performed over the next year, and a record-keeping system will be established.

Debt

At year-end, the County had \$10,590,000 outstanding in general obligation bonds backed by the County, versus \$11,330,000 last year.

The County did not issue bonds in 2017. Principal and interest payments on all bonds and notes will not exceed the amount allowed by Minn. Stat. § 373.40.

Other obligations include accrued vacation pay and sick leave payable. More detailed information about the County's long-term liabilities is presented in Note 3.C. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND LEVY

The County's elected and appointed officials considered many factors when setting the fiscal year 2018 budget and tax levy:

- anticipated general COLA increase of 3.0 percent,
- anticipated health insurance increase of 4.0 percent,
- increase of \$375,000 for various new staff,
- increase of \$100,000 to fund additional costs associated with the Transfer Station, and
- increase of 4.92 percent for property tax levies in 2018.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Auditor/Treasurer, Paul G. Gassert, Carlton County Courthouse, 301 Walnut Avenue, Carlton, Minnesota 55718.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017**

Assets

Cash and pooled investments	\$ 36,082,590
Receivables	9,021,028
Inventories	776,693
Prepaid items	<u>1,111,077</u>
Total Assets	<u>\$ 46,991,388</u>

Deferred Outflows of Resources

Deferred pension outflows	<u>\$ 8,539,252</u>
---------------------------	----------------------------

Liabilities

Accounts payable and other current liabilities	\$ 3,832,005
Accrued interest payable	80,994
Unearned revenue	239,144
Long-term liabilities	
Due within one year	810,000
Due in more than one year	13,597,191
Net pension liability	<u>19,563,850</u>
Total Liabilities	<u>\$ 38,123,184</u>

Deferred Inflows of Resources

Prepaid property taxes	\$ 368,671
Deferred pension inflows	<u>7,510,466</u>
Total Deferred Inflows of Resources	<u>\$ 7,879,137</u>

Net Position

Restricted for	
General government	\$ 599,627
Public safety	89,074
Highways and streets	1,562,640
Conservation of natural resources	304,685
Sanitation	46,791
Economic development	4,211,649
Debt service	2,050,514
Unrestricted	<u>663,339</u>
Total Net Position	<u>\$ 9,528,319</u>

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

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**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Functions/Programs					
Governmental activities					
General government	\$ 8,739,725	\$ 1,773,954	\$ 156,526	\$ -	\$ (6,809,245)
Public safety	10,122,623	436,467	466,271	-	(9,219,885)
Highways and streets	15,808,286	1,216,160	5,740,911	801,718	(8,049,497)
Sanitation	1,625,563	1,061,373	25,931	-	(538,259)
Human services	17,314,706	1,754,929	8,859,871	-	(6,699,906)
Health	1,493,395	645,164	632,746	-	(215,485)
Culture and recreation	494,641	-	3,500	-	(491,141)
Conservation of natural resources	1,479,870	1,058,910	473,201	-	52,241
Economic development	947,182	103,185	435,064	103,606	(305,327)
Interest	175,173	-	-	-	(175,173)
Total Governmental Activities	\$ 58,201,164	\$ 8,050,142	\$ 16,794,021	\$ 905,324	\$ (32,451,677)
 General Revenues					
Property taxes				\$ 25,164,689	
Mortgage registry and deed tax				25,440	
Transportation sales tax				1,985,655	
Payments in lieu of tax				395,818	
Grants and contributions not restricted to specific programs				2,794,727	
Unrestricted investment earnings				435,790	
Miscellaneous				131,777	
Total general revenues				\$ 30,933,896	
Change in net position					\$ (1,517,781)
Net Position - Beginning					11,046,100
Net Position - Ending					\$ 9,528,319

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**CARLTON COUNTY
CARLTON, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 17,123,644	\$ 3,819,223
Petty cash and change funds	2,000	-
Taxes receivable		
Delinquent	455,230	93,630
Special assessments receivable		
Delinquent	44,898	-
Accounts receivable	110,314	-
Accrued interest receivable	135,177	-
Due from other funds	90,000	4,980
Due from other governments	155,074	2,722,880
Inventories	-	776,693
Prepaid items	1,111,077	-
Loans receivable	2,446,308	-
	\$ 21,673,722	\$ 7,417,406
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 270,922	\$ 75,578
Salaries payable	610,607	162,710
Contracts payable	-	1,149,741
Due to other funds	4,204	-
Due to other governments	69,273	230,690
Unearned revenue	50,832	158,523
	\$ 1,005,838	\$ 1,777,242
Deferred Inflows of Resources		
Prepaid property taxes	\$ 205,582	\$ 39,645
Unavailable revenue		
Taxes	434,819	83,376
Grants	-	993,094
Long-term receivables	-	-
	\$ 640,401	\$ 1,116,115

EXHIBIT 3

<u>Human Services</u>	<u>Forfeited Tax</u>	<u>Debt Service</u>	<u>Total</u>
\$ 12,803,329	\$ 266,327	\$ 2,061,667	\$ 36,074,190
6,400	-	-	8,400
249,847	-	38,151	836,858
-	-	-	44,898
-	1,032,804	-	1,143,118
-	-	-	135,177
-	-	-	94,980
1,536,715	-	-	4,414,669
-	-	-	776,693
-	-	-	1,111,077
-	-	-	2,446,308
<u>\$ 14,596,291</u>	<u>\$ 1,299,131</u>	<u>\$ 2,099,818</u>	<u>\$ 47,086,368</u>
\$ 585,270	\$ 447	\$ -	\$ 932,217
539,518	10,413	-	1,323,248
-	-	-	1,149,741
-	90,776	-	94,980
126,636	200	-	426,799
29,789	-	-	239,144
<u>\$ 1,281,213</u>	<u>\$ 101,836</u>	<u>\$ -</u>	<u>\$ 4,166,129</u>
\$ 108,190	\$ -	\$ 15,254	\$ 368,671
224,212	-	34,050	776,457
-	-	-	993,094
-	999,223	-	999,223
<u>\$ 332,402</u>	<u>\$ 999,223</u>	<u>\$ 49,304</u>	<u>\$ 3,137,445</u>

**CARLTON COUNTY
CARLTON, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	General	Road and Bridge
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
(Continued)		
Fund Balances		
Nonspendable		
Inventories	\$ -	\$ 776,693
Prepaid items	1,111,077	-
Long-term loans	2,446,308	-
Missing heirs	25,765	-
Restricted		
Debt service	-	-
Law library	132,885	-
Recorder's technology equipment	180,674	-
Recorder's compliance	242,059	-
Prosecutorial purposes	18,244	-
Administering the carrying of weapons	74,344	-
Law enforcement	14,730	-
Timber development	304,685	-
Economic development	1,812,132	-
Highways and streets	-	446,738
Transportation sales tax	-	670,358
Assigned		
Highways and streets	-	2,630,260
Human services	-	-
Health	-	-
Forfeited tax	-	-
Unassigned	13,664,580	-
Total Fund Balances	\$ 20,027,483	\$ 4,524,049
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 21,673,722	\$ 7,417,406

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Forfeited Tax</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 776,693
-	-	-	1,111,077
-	-	-	2,446,308
-	-	-	25,765
-	-	2,050,514	2,050,514
-	-	-	132,885
-	-	-	180,674
-	-	-	242,059
-	-	-	18,244
-	-	-	74,344
-	-	-	14,730
-	-	-	304,685
-	-	-	1,812,132
-	-	-	446,738
-	-	-	670,358
-	-	-	2,630,260
9,623,563	-	-	9,623,563
3,359,113	-	-	3,359,113
-	198,072	-	198,072
-	-	-	13,664,580
\$ 12,982,676	\$ 198,072	\$ 2,050,514	\$ 39,782,794
\$ 14,596,291	\$ 1,299,131	\$ 2,099,818	\$ 47,086,368

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**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT 4

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

Fund balance - total governmental funds (Exhibit 3)	\$	39,782,794
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Amounts reported for governmental activities in the statement of net position are different because:

Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds.		8,539,252
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Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources--unavailable revenue in the governmental funds.		2,768,774
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.

General obligation bonds	\$ (10,590,000)	
Bond premium	(276,236)	
Accrued interest payable	(80,994)	
Compensated absences	(3,540,955)	
Net pension liability	<u>(19,563,850)</u>	(34,052,035)

Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in governmental funds.		<u>(7,510,466)</u>
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Net Position of Governmental Activities (Exhibit 1)	\$	<u>9,528,319</u>
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**CARLTON COUNTY
CARLTON, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	General	Road and Bridge
Revenues		
Taxes	\$ 14,216,545	\$ 4,782,234
Special assessments	549,259	-
Licenses and permits	86,025	-
Intergovernmental	3,617,964	7,301,310
Charges for services	2,466,531	472,268
Fines and forfeits	52,084	-
Gifts and contributions	169,470	-
Investment earnings	430,447	5,343
Miscellaneous	610,541	743,892
	\$ 22,198,866	\$ 13,305,047
Expenditures		
Current		
General government	\$ 8,472,728	\$ -
Public safety	9,232,900	-
Highways and streets	-	15,647,393
Sanitation	1,618,981	-
Human services	-	-
Health	-	-
Culture and recreation	494,641	-
Conservation of natural resources	995,154	-
Economic development	947,182	-
Debt service		
Principal	-	-
Interest	-	-
Administrative charges	-	-
	\$ 21,761,586	\$ 15,647,393
Excess of Revenues Over (Under) Expenditures	\$ 437,280	\$ (2,342,346)
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ -
Transfers out	(11,971)	-
	\$ (11,971)	\$ -
Net Change in Fund Balance	\$ 425,309	\$ (2,342,346)
Fund Balance - January 1	19,602,174	6,879,482
Increase (decrease) in inventories	-	(13,087)
	\$ 20,027,483	\$ 4,524,049
Fund Balance - December 31	\$ 20,027,483	\$ 4,524,049

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

EXHIBIT 5

<u>Human Services</u>	<u>Forfeited Tax</u>	<u>Debt Service</u>	<u>Total</u>
\$ 7,298,554	\$ -	\$ 1,039,195	\$ 27,336,528
-	-	-	549,259
-	-	-	86,025
10,093,903	23,064	22,478	21,058,719
2,085,374	-	-	5,024,173
-	-	-	52,084
62,674	-	-	232,144
-	-	-	435,790
314,719	556,502	-	2,225,654
\$ 19,855,224	\$ 579,566	\$ 1,061,673	\$ 57,000,376
\$ -	\$ -	\$ -	\$ 8,472,728
-	-	-	9,232,900
-	-	-	15,647,393
-	-	-	1,618,981
16,861,831	-	-	16,861,831
1,444,341	-	-	1,444,341
-	-	-	494,641
-	489,020	-	1,484,174
-	-	-	947,182
-	-	740,000	740,000
-	-	206,645	206,645
-	-	1,350	1,350
\$ 18,306,172	\$ 489,020	\$ 947,995	\$ 57,152,166
\$ 1,549,052	\$ 90,546	\$ 113,678	\$ (151,790)
\$ 11,971	\$ -	\$ -	\$ 11,971
-	-	-	(11,971)
\$ 11,971	\$ -	\$ -	\$ -
\$ 1,561,023	\$ 90,546	\$ 113,678	\$ (151,790)
11,421,653	107,526	1,936,836	39,947,671
-	-	-	(13,087)
\$ 12,982,676	\$ 198,072	\$ 2,050,514	\$ 39,782,794

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT 6

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

Net change in fund balance - total governmental funds (Exhibit 5) \$ (151,790)

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

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

Unavailable revenue - December 31	\$ 2,768,774	
Unavailable revenue - January 1	<u>(3,107,769)</u>	(338,995)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. 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		740,000

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

Change in accrued interest payable	\$ 11,573	
Change in compensated absences	(199,484)	
Amortization of bond premium	21,249	
Change in inventories	(13,087)	
Change in net pension liability	9,104,454	
Change in deferred pension outflows	(6,316,297)	
Change in deferred pension inflows	<u>(4,375,404)</u>	<u>(1,766,996)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ (1,517,781)

FIDUCIARY FUNDS

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**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2017**

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	\$ <u>2,284,186</u>
<u>Liabilities</u>	
Accounts payable	\$ 80,734
Due to other governments	<u>2,203,452</u>
Total Liabilities	\$ <u>2,284,186</u>

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**CARLTON COUNTY
CARLTON, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

1. Summary of Significant Accounting Policies

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

Carlton County has not included capital assets or infrastructure, such as roads and bridges, in the government-wide financial statements as required by GASB Statement 34. Also, the County has not determined what its other postemployment benefits (OPEB) liability might be in order to include the liability in the government-wide financial statements as required by GASB Statement 45. These departures from GAAP are discussed in Notes 1.D.4. and 1.D.9. to the financial statements.

A. Financial Reporting Entity

Carlton County was established May 23, 1857, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Carlton County (primary government) and any component units for which the County is financially accountable. The County has no component units. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Auditor/Treasurer, who is elected on a County-wide basis, serves as the clerk of the Board but has no vote.

Joint Ventures

The County participates in several joint ventures described in Note 5.D.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about Carlton County.

These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately.

In the government-wide statement of net position, the governmental activities are presented on a consolidated basis and 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, except that Carlton County does not report capital assets and OPEB liability, as discussed in Notes 1.D.4. and 1.D.9, respectively.

The County's net position is reported in two parts: (1) restricted net position and (2) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues. The County has not recorded depreciation expense or eliminated the related capital expenditures or recognized any change in net OPEB obligations in the statement of activities as required by accounting principles generally accepted in the United States of America, as discussed in Notes 1.D.4. and 1.D.9.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

- The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.
- The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.
- The Human Services Special Revenue Fund is used to account for economic assistance and community social services programs.
- 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 Minn. Stat. ch. 282. The distribution of the net proceeds, after deducting the expenses of the County for managing the tax-forfeited lands, is governed by Minn. Stat. § 282.08. Title to the tax-forfeited lands remains with the state until sold by the County.
- The Debt Service Fund is used to account for the accumulation of resources for and the payment of principal, interest, and related costs of general long-term debt.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fiduciary fund type:

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Carlton County considers all revenues as available if collected within 90 days after the end of the current period, except for taxes, which have a 60-day accrual period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at fair value at December 31, 2017. A market approach is used to value all investments other than external investment pools, which are measured at the net asset value. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2017 were \$435,790.

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

2. Receivables and Payables

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

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

Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments receivable.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables (Continued)

Loans receivable consist of the outstanding balances of economic development loans to private enterprises and septic system repair loans to individuals. The funds used for the economic development loans are from the County's allocation of taconite production tax monies received through the Iron Range Resources and Rehabilitation Board. Funding for the septic system repair loans was from County sources.

No allowance for uncollectible receivables has been provided because such amounts are not expected to be material.

3. Inventories and Prepaid Items

Road and Bridge Special Revenue Fund inventory consists of expendable supplies held for consumption and is valued at cost using the weighted-average cost method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

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.

4. Capital Assets

GAAP require capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), to be reported in the governmental activities column in the government-wide financial statements. Capital assets that meet certain threshold criteria defined by the County are to be recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are to be recorded at the acquisition value. The assets are to be depreciated at the government-wide financial statement level.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Capital Assets (Continued)

Carlton County has not reported its capital assets, including infrastructure, on the government-wide statement of net position. Also, no depreciation has been reported on capital assets in the government-wide statement of activities, and capital expenditures have not been removed from the statement of activities. These are departures from accounting principles generally accepted in the United States of America.

5. Unearned Revenue

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

6. Compensated Absences

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

The County determines the current portion, if any, based on the anticipated retirements and any activity that occurs within the first few months of the subsequent year.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, differences between expected and actual pension plan economic experience, changes in actuarial assumptions, differences between projected and actual earnings on pension plan investments, and pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources until that time. The County has three types of items, prepaid property taxes, unavailable revenue, and deferred pension inflows, that qualify for reporting in this category. Prepaid property taxes represent the County's share of tax collections collected prior to year-end that were not due until the following year. These amounts arise under both the modified accrual and the full accrual basis of accounting and are reported in both the governmental fund balance sheet and the statement of net position. Unavailable revenue arises only under the modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amount became available. Deferred pension inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience, changes in actuarial assumptions, differences between projected and actual investment earnings on pension plan investments, and pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Pension Plan

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

The net pension liability is liquidated by the General Fund and the Road and Bridge, Human Services, and Forfeited Tax Special Revenue Funds.

9. Long-Term Obligations

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

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.

The County has not calculated its OPEB obligation in order to report the liability on the government-wide statement of net position. The change in the net OPEB obligation has not been reported in the government-wide statement of activities. These are departures from accounting principles generally accepted in the United States of America.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Classification of Net Position

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

- Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position - the amount of net position that does not meet the definition of restricted.

11. Classification of Fund Balances

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

- Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.
- Restricted - amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances (Continued)

- Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Auditor/Treasurer, who has been delegated that authority by Board resolution.
- Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

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

12. 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 certain 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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 36,082,590
Statement of fiduciary net position	
Cash and pooled investments	<u>2,284,186</u>
 Total Cash and Investments	 <u>\$ 38,366,776</u>

a. Deposits

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

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

Custodial Credit Risk

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. It is the County's policy to not incur unreasonable risk in order to gain investment income. The County's goal is to maximize income, to preserve principal, and to maintain liquidity to meet the County's need for cash and timely payment of bills.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's practice to invest only in instruments authorized by Minnesota statutes.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy on custodial credit risk for investments. As of December 31, 2017, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County's practice is to make investments which create diversification and avoid risk.

**CARLTON COUNTY
CARLTON, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Federal Home Loan Mortgage Corporation Note	Aaa/AA+	Moody's/S&P	<5%	06/29/2022	\$ 123,966
Federal Home Loan Mortgage Corporation Note	Aaa/AA+	Moody's/S&P	<5%	04/27/2021	148,434
Federal Home Loan Mortgage Corporation Note	Aaa/AA+	Moody's/S&P	<5%	04/27/2022	124,370
Federal Home Loan Mortgage Corporation Note	Aaa/AA+	Moody's/S&P	<5%	02/01/2028	997
Total Federal Home Loan Mortgage Corporation Notes					\$ 397,767
Federal Home Loan Bank	Aaa/AA+	Moody's/S&P	<5%	12/11/2020	\$ 199,108
Federal National Mortgage Association	Aaa/AA+	Moody's/S&P	<5%	10/01/2025	\$ 1,191
Negotiable certificates of deposit					
First Mid-Illinois Bank & Trust	N/A	N/A	<5%	01/02/2018	\$ 105,996
Morrill & Janes Bank & Trust	N/A	N/A	<5%	01/08/2018	244,990
United Bank Vernon	N/A	N/A	<5%	01/15/2018	244,983
Bank Baroda	N/A	N/A	<5%	01/16/2018	244,963
Bank Financial FSB	N/A	N/A	<5%	01/16/2018	244,958
Homestreet Bank	N/A	N/A	<5%	01/29/2018	244,949
Mbank	N/A	N/A	<5%	01/29/2018	244,949
Enterprise Bank & Trust	N/A	N/A	<5%	02/12/2018	244,921
State Bank India	N/A	N/A	<5%	02/12/2018	244,932
Bank of India NYC	N/A	N/A	<5%	02/14/2018	244,928
Banc of California NA	N/A	N/A	<5%	02/16/2018	245,008
First National Bank Omaha	N/A	N/A	<5%	02/16/2018	244,857
Bank of East Asia	N/A	N/A	<5%	02/20/2018	244,954
Compass Bank	N/A	N/A	<5%	02/20/2018	245,025
Morgan Stanley Bank NA	N/A	N/A	<5%	02/20/2018	245,007
Morgan Stanley Private Bank NA	N/A	N/A	<5%	02/20/2018	245,025
Synchrony Bank	N/A	N/A	<5%	02/20/2018	245,025
Fidelity Bank	N/A	N/A	<5%	02/23/2018	244,909
Mizrahi Tefahot Bank	N/A	N/A	<5%	02/26/2018	244,966
Wells Fargo Bank	N/A	N/A	<5%	02/26/2018	245,006
Beal Bank, Plano	N/A	N/A	<5%	02/28/2018	244,877
Cathay Bank	N/A	N/A	<5%	02/28/2018	244,963
Metabank	N/A	N/A	<5%	02/28/2018	244,877
Community Financial Services Bank	N/A	N/A	<5%	03/08/2018	244,802
Goldman Sachs Bank USA	N/A	N/A	<5%	03/13/2018	244,931
Pacific Western Bank	N/A	N/A	<5%	03/21/2018	244,821
Avid Bank	N/A	N/A	<5%	03/23/2018	244,813
Seacoast National Bank	N/A	N/A	<5%	03/29/2018	244,822
Stearns Bank	N/A	N/A	<5%	03/29/2018	244,736

**CARLTON COUNTY
CARLTON, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Negotiable certificates of deposit (Continued)					
Bank of China	N/A	N/A	<5%	04/19/2018	244,789
Israel Discount Bank of NY	N/A	N/A	<5%	04/20/2018	244,777
Planters Bank Inc	N/A	N/A	<5%	04/27/2018	152,883
Republic Bank Duluth	N/A	N/A	<5%	05/03/2018	244,669
Bank Hapoalim	N/A	N/A	<5%	05/11/2018	244,719
Home Savings & Loan Co	N/A	N/A	<5%	05/18/2018	244,647
TCF National Bank	N/A	N/A	<5%	06/14/2018	244,488
DMB Community Bank	N/A	N/A	<5%	06/18/2018	244,470
Provident Bank	N/A	N/A	<5%	06/29/2018	244,481
Southern First Bank	N/A	N/A	<5%	06/29/2018	244,481
City National Bank	N/A	N/A	<5%	08/17/2018	244,746
Bank United	N/A	N/A	<5%	09/28/2018	244,640
First Bank	N/A	N/A	<5%	09/28/2018	243,788
Northeast Bank Mpls	N/A	N/A	<5%	11/21/2018	244,605
Webbank	N/A	N/A	<5%	11/28/2018	244,326
Discover Bank	N/A	N/A	<5%	12/14/2018	244,386
SmartBank	N/A	N/A	<5%	01/18/2019	243,842
Comenity Capital Bank	N/A	N/A	<5%	02/19/2019	244,653
Key Bank	N/A	N/A	<5%	03/22/2019	244,110
The Jefferson Bank	N/A	N/A	<5%	03/25/2019	244,094
Whitney Bank	N/A	N/A	<5%	04/22/2019	244,450
American Express Bank FSB	N/A	N/A	<5%	05/10/2019	244,043
Capital One Bank	N/A	N/A	<5%	08/16/2019	244,171
JP Morgan Chase Bank	N/A	N/A	<5%	09/30/2019	241,350
Wex Bank	N/A	N/A	<5%	11/22/2019	243,930
Community First Bank	N/A	N/A	<5%	12/16/2019	242,866
Mercantil Commerce Bank	N/A	N/A	<5%	12/23/2019	243,533
Everbank	N/A	N/A	<5%	03/27/2020	243,631
BMW North America	N/A	N/A	<5%	11/17/2020	243,871
Ally Bank	N/A	N/A	<5%	08/20/2018	245,196
Total negotiable certificates of deposit					\$ 14,198,628
Investment pools/mutual funds					
MAGIC Fund	N/A	N/A	55.1%	N/A	\$ 18,138,928
Total investments					\$ 32,935,622
Deposits and non-negotiable certificates of deposit					5,422,754
Petty cash					8,400
Total Cash and Investments					\$ 38,366,776

N/A - Not Applicable
S&P - Standard & Poor's
<5% - Concentration is less than 5% of investments

**CARLTON COUNTY
CARLTON, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

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

At December 31, 2017, the County had the following recurring fair value measurements.

	December 31, 2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
Federal Home Loan Mortgage Corporation Discount Notes	\$ 397,767	\$ -	\$ 397,767	\$ -
Federal Home Loan Bank	199,108	-	199,108	-
Federal National Mortgage Association	1,191	-	1,191	-
Negotiable certificates of deposit	14,198,628	-	14,198,628	-
	<u>\$ 14,796,694</u>	<u>\$ -</u>	<u>\$ 14,796,694</u>	<u>\$ -</u>
Total Investments by Fair Value Hierarchy				
Investments measured at the net asset value (NAV)				
MAGIC Portfolio	\$ 10,596,570			
MAGIC Term	7,542,358			
	<u>\$ 18,138,928</u>			
Total investments measured at the NAV				
	<u>\$ 32,935,622</u>			
Total Investments				

**CARLTON COUNTY
CARLTON, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

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

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

Shares of MAGIC Term Series are purchased to mature upon pre-determined maturity dates selected by the County at the time of purchase. Should the County need to redeem shares in a MAGIC Term Series prematurely, they must provide notice at least seven days prior to premature redemption date. The value of a premature redemption is equal to the original price for such share, plus dividends thereon, at the projected yield, less such share's allocation of any losses incurred by the series, less a premature redemption penalty, if any.

**CARLTON COUNTY
CARLTON, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

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

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 836,858	\$ -
Special assessments	44,898	-
Accounts	1,143,118	-
Accrued interest	135,177	-
Due from other governments	4,414,669	-
Loans receivable	2,446,308	2,240,296
Total Governmental Activities	\$ 9,021,028	\$ 2,240,296

Loans receivable represent amounts owed from private/public enterprises within the County for economic development and from individuals for septic system repair. The revolving loan fund activity is included in the General Fund. At year-end, the County had 51 loans with balances outstanding. Scheduled collections on these loans range from one to nine years.

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

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

Receivable Fund	Payable Fund	Amount	Purpose
General	Forfeited Tax	\$ 90,000	Forfeited tax apportionment and payment of fees
Road and Bridge	General	\$ 4,204	Reimburse supplies and services
	Forfeited Tax	776	Reimburse supplies and services
Total due to Road and Bridge Fund		\$ 4,980	
Total Due To/From Other Funds		\$ 94,980	

**CARLTON COUNTY
CARLTON, MINNESOTA**

2. Detailed Notes on All Funds

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

2. Interfund Transfers

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

Interfund Transfers	Amount	Purpose
Transfers to Human Services Fund from General Fund	\$ 11,971	Collection of Title IV-D funds

C. Liabilities

1. Payables

Payables at December 31, 2017, were as follows:

	Governmental Activities
Accounts	\$ 932,217
Salaries	1,323,248
Contracts	1,149,741
Due to other governments	426,799
Total Payables	<u>\$ 3,832,005</u>

2. Other Postemployment Benefits - Retirees

The County provides post-retirement health care benefits for retired permanent full-time employees from age 55 to age 65 and their authorized dependents. The authority to provide this benefit is established in Minn. Stat. § 471.61, subd. 2a. The percentage of the premium paid varies depending on the years of service. As of year-end, the County has 43 eligible participants. The County finances the plan on a pay-as-you-go basis. Premiums are charged to the department from which the employee retired. During 2017, the County expended \$567,560 for these benefits.

**CARLTON COUNTY
CARLTON, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Bonds Payable

Bond payments are typically made from the Debt Service Fund. Information on individual bonds payable follows:

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2017
2012A G.O. Capital Improvement Refunding Bonds	2021	\$250,000 - \$560,000	0.40 - 1.50	\$ 4,010,000	\$ 2,185,000
2016A G.O. Capital Improvement Refunding Bonds	2030	\$215,000 - \$900,000	2.00	<u>8,620,000</u>	<u>8,405,000</u>
Total				<u>\$ 12,630,000</u>	\$ 10,590,000
Plus: unamortized premium					<u>276,237</u>
Total General Obligation Bonds, Net					<u>\$ 10,866,237</u>

4. 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	\$ 810,000	\$ 189,255
2019	815,000	178,405
2020	840,000	166,193
2021	855,000	152,550
2022	590,000	139,500
2023 - 2027	4,030,000	476,200
2028 - 2030	<u>2,650,000</u>	<u>80,100</u>
Total	<u>\$ 10,590,000</u>	<u>\$ 1,382,203</u>

**CARLTON COUNTY
CARLTON, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

5. 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
Bonds payable					
General obligation bonds	\$ 11,330,000	\$ -	\$ 740,000	\$ 10,590,000	\$ 810,000
Bond premium	297,485	-	21,249	276,236	-
Compensated absences	3,341,471	3,303,497	3,104,013	3,540,955	-
Governmental Activities					
Long-Term Liabilities	<u>\$ 14,968,956</u>	<u>\$ 3,303,497</u>	<u>\$ 3,865,262</u>	<u>\$ 14,407,191</u>	<u>\$ 810,000</u>

3. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description

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

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

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

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Public Employees Correctional Plan (accounted for in the Correctional Fund). For members hired after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years.

2. Benefits Provided

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated Plan and Basic Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. Minneapolis Employees Retirement Fund members have an annuity accrual rate of 2.0 percent of average salary for each of the first ten years of service and 2.5 percent for each remaining year. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans (Continued)

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Basic members, Coordinated members, and Minneapolis Employees Retirement Fund members were required to contribute 9.10 percent, 6.50 percent, and 9.75 percent, respectively, of their annual covered salary in 2017. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2017. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2017.

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

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.50
Minneapolis Employees Retirement Fund members	9.75
Public Employees Police and Fire Fund	16.20
Public Employees Correctional Fund	8.75

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

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

General Employees Retirement Plan	\$ 1,238,426
Public Employees Police and Fire Plan	319,460
Public Employees Correctional Plan	89,907

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans (Continued)

4. Pension Costs

General Employees Retirement Plan

At December 31, 2017, the County reported a liability of \$15,723,630 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.2463 percent. It was 0.2409 percent measured as of June 30, 2016. The County recognized pension expense of \$2,115,947 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized \$5,710 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan for the fiscal year ended June 30, 2017.

The County's proportionate share of the net pension liability	\$ 15,723,630
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>197,710</u>
Total	<u>\$ 15,921,340</u>

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 518,203	\$ 991,540
Changes in actuarial assumptions	2,553,228	1,576,295
Difference between projected and actual investment earnings	46,927	-
Changes in proportion	328,840	354,851
Contributions paid to PERA subsequent to the measurement date	632,177	-
Total	\$ 4,079,375	\$ 2,922,686

The \$632,177 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2018	\$ 446,936
2019	948,998
2020	(203,984)
2021	(667,438)

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Police and Fire Plan

At December 31, 2017, the County reported a liability of \$2,443,715 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.181 percent. It was 0.186 percent measured as of June 30, 2016. The County recognized pension expense of \$609,649 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

The County also recognized \$16,290 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Public Employees Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 56,249	\$ 664,713
Changes in actuarial assumptions	3,286,434	3,469,470
Difference between projected and actual investment earnings	49,969	-
Changes in proportion	50,850	167,216
Contributions paid to PERA subsequent to the measurement date	161,944	-
Total	\$ 3,605,446	\$ 4,301,399

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

The \$161,944 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2018	\$ 46,894
2019	46,894
2020	(42,193)
2021	(193,401)
2022	(716,091)

Public Employees Correctional Plan

At December 31, 2017, the County reported a liability of \$1,396,505 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.49 percent. It was 0.45 percent measured as of June 30, 2016. The County recognized pension expense of \$531,445 for its proportionate share of the Public Employees Correctional Plan's pension expense.

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 857	\$ 21,405
Changes in actuarial assumptions	698,247	243,089
Difference between projected and actual investment earnings	-	21,887
Changes in proportion	111,140	-
Contributions paid to PERA subsequent to the measurement date	44,187	-
	\$ 854,431	\$ 286,381
Total		

The \$44,187 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2018	\$ 303,319
2019	311,803
2020	(52,378)
2021	(38,881)

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2017, was \$3,257,041.

5. Actuarial Assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.0 percent through 2044 and 2064, respectively, and 2.5 percent thereafter. Cost of living benefit increases for retirees are assumed to be 2.5 percent for the Public Employees Correctional Plan.

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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

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

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2017, which remained consistent with 2016. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan and the Public Employees Police and Fire Plan were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

6. Discount Rate (Continued)

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

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2017:

General Employees Retirement Plan

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.0 percent for active member liability, 15 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21,000,000 in calendar years 2017 and 2018 and returns to \$31,000,000 through calendar year 2031. The state's required contribution is \$16,000,000 in PERA's fiscal years 2018 and 2019 and returns to \$6,000,000 annually through calendar year 2031.

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions (Continued)

Public Employees Police and Fire Plan

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- The assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 33 percent for vested members and 2.0 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.
- The assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- The assumed percentage of married female members was decreased from 65 percent to 60 percent.
- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions

Public Employees Police and Fire Plan (Continued)

- The assumed percentage of female members electing joint and survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent for all years to 1.0 percent per year through 2064 and 2.5 percent thereafter.
- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

Public Employees Correctional Plan

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2016).
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1.0 percent for non-vested members.
- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans (Continued)

8. Pension Liability Sensitivity

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

	General Employees Retirement Plan		Proportionate Share of the 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%	\$ 24,388,518	6.50%	\$ 4,602,229	4.96%	\$ 2,301,265
Current	7.50	15,723,630	7.50	2,443,715	5.96	1,396,505
1% Increase	8.50	8,629,845	8.50	661,743	6.96	690,327

9. Pension Plan Fiduciary Net Position

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

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Pension Plans

B. Defined Contribution Plan (Continued)

contributes 5.00 percent of salary, which is matched by the employer. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

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

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 5,132	\$ 5,132
Percentage of covered payroll	5%	5%

4. Postemployment Health Care

A. MSRS Health Care Savings Plan

Carlton County employees participate in a Health Care Savings Plan (HCSP) administered by the Minnesota State Retirement System (MSRS). The plan is authorized under Minn. Stat. § 352.98 and through an Internal Revenue Service (IRS) private letter ruling establishing the HCSP as a tax-exempt benefit as of July 29, 2002.

The plan is open to any active public employees in Minnesota if they are covered under certain public service retirement plans.

Under the terms of the HCSP, employees are allowed to save money, tax-free, to use upon termination of employment to pay for eligible health care expenses. The IRS private letter ruling requires mandatory participation of all employees in each bargaining unit in order to gain tax-free benefits. Allowable amounts deposited into individual accounts must be negotiated by each individual bargaining unit and the employer. The plan must be written into the collective bargaining agreement or a Memo of Understanding. For those employees not covered by a bargaining unit, amounts to be deposited into individual accounts must be agreed to by the employer and included in a written personnel policy.

**CARLTON COUNTY
CARLTON, MINNESOTA**

4. Postemployment Health Care

A. MSRS Health Care Savings Plan (Continued)

Under Carlton County's plan, both unionized and non-represented employees are required to contribute, at retirement, 50 or 100 percent of their eligible unused sick time into their HCSP account, depending on the employees' bargaining agreement.

B. Northland VEBA Trust Plan

In 2005, the Carlton County Board of Commissioners approved a Voluntary Employees' Beneficiary Association (VEBA) plan for funding employee health benefits as authorized under Sections 501(c)(9) and 213(d) of the IRS code. The VEBA plan is a health reimbursement plan providing for individual employer-funded accounts that can be used to help pay eligible medical expenses incurred by participating employees. The plan is used in combination with a high-deductible health plan. Funding is provided through pre-tax contributions from Carlton County based on employee health care elections. The VEBA plan is administered by Compensation Consultants, Ltd.

The current maximum County contribution for active employees consists of 100 percent of the employee deductible amount for all employees enrolled in County health care coverage and 80 percent of the dependent deductible. Any balance remaining in an employee's account at year-end rolls over into the subsequent year.

Eligibility requirements include:

- be an active employee or retiree of a public entity,
- active employees must have a high-deductible health plan, and
- be a member of a bargaining unit that has approved the VEBA plan.

5. Summary of Significant Contingencies and Other Items

A. 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

**CARLTON COUNTY
CARLTON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County's group health insurance is through the Northeast Service Cooperative (NESC). For other risks, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

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

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

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

B. Contingent Liabilities

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities (Continued)

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

C. Conduit Debt

On February 10, 2015, the Carlton County Board of Commissioners approved a request from Augustana Mercy Care Center, LLC, and Augustana Oakview Care, LLC, for the County to issue \$5,805,000 in revenue bonds, pursuant to the Minnesota Municipal Industrial Development Act, Minn. Stat. §§ 469.152 through 469.165, as amended. The proceeds from the bonds were used to finance the acquisition and improvement of the Oakview Care Facilities (\$4,220,000) and the acquisition and installation of equipment in the Augustana Mercy Care Facilities (\$1,585,000). Both facilities are located in the City of Moose Lake. The bonds are secured by the properties financed and are payable solely from the revenues of Augustana Mercy Care Center, LLC, and Augustana Oakview Care, LLC. The County is not obligated in any manner for repayment of the bonds. The bonds were issued on March 2, 2015. As of December 31, 2017, the outstanding principal balance was \$5,430,000.

D. Joint Ventures

Arrowhead Regional Corrections

The County, in a joint powers agreement pursuant to Minn. Stat. § 471.59, participates with Cook, Koochiching, Lake, and St. Louis Counties in the Arrowhead Regional Corrections Board, which was established pursuant to the Community Corrections Act, Minn. Stat. §§ 401.01-.16.

The Arrowhead Regional Corrections Board comprises three major divisions: juvenile institutional services, adult institutional services, and court and field services. These divisions are composed of the five participating counties' probation departments, the Arrowhead Juvenile Detention Center, and the Northeast Regional Corrections Center.

**CARLTON COUNTY
CARLTON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Arrowhead Regional Corrections (Continued)

Arrowhead Regional Corrections is governed by an eight-member Board composed of one member appointed from each of the participating counties' Boards of Commissioners, except for St. Louis County, which has three members appointed by its Board. In addition, the right to have an additional member is annually rotated among Carlton, Cook, Koochiching, and Lake Counties. Arrowhead Regional Corrections is financed through state grants and contributions from the participating counties. Carlton County provided \$1,809,240 in funding in 2017.

Separate financial information can be obtained from:

Arrowhead Regional Corrections
211 West Second Street, Suite 450
Duluth, Minnesota 55802

Carlton County Children and Family Service Collaborative

The Carlton County Children and Family Service Collaborative was established pursuant to Minn. Stat. § 124D.23. The Collaborative includes Carlton County; the Independent School Districts of Barnum, Carlton, Cloquet, Cromwell, Esko, Moose Lake, and Wrenshall; the Lakes and Pines Community Action Agency; the Cloquet Area Special Education Cooperative; Fond du Lac Reservation Tribal Council; Arrowhead Regional Corrections; and the Human Development Center.

The purpose of the Collaborative is to create a community environment and service network that promotes family health, stability, and self-sufficiency through an easily accessible integrated human service delivery system.

Control of the Collaborative is vested in a Board of Directors. Carlton County has two members on the Board. Financing is provided by state and local grants, appropriations from Collaborative members, and miscellaneous revenues. Carlton County is the fiscal agent for the Collaborative and handles all of the financial transactions for this organization. Financial information for the Collaborative for the fiscal year ended December 31, 2017, is accounted for in an agency fund of Carlton County.

**CARLTON COUNTY
CARLTON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Carlton, Cook, Lake, and St. Louis Community Health Board

Carlton, Cook, Lake, and St. Louis Counties entered into a joint powers agreement, creating and operating the Carlton, Cook, Lake, and St. Louis Community Health Board. This agreement was entered into January 1, 1977, and is established pursuant to Minn. Stat. § 471.59.

The Community Health Board is composed of nine members. The Carlton, Cook, and Lake County Boards of Commissioners each appoint two members; the St. Louis County Board of Commissioners appoints three members. Financing is obtained through federal and state grants. Carlton County provided no funding to this organization in 2017.

Separate financial information can be obtained from:

Carlton, Cook, Lake, and St. Louis Community Health Board
404 West Superior Street, Suite 220
Duluth, Minnesota 55802

Northeast Minnesota Office of Job Training

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

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

Separate financial information can be obtained from:

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

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 Minn. Stat. § 471.59, for the purpose of operating and maintaining data processing facilities and management information systems for use by its members.

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

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

Separate financial information can be obtained from:

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Arrowhead Health Alliance

Carlton, Cook, Koochiching, and Lake Counties entered into a joint powers agreement, pursuant to Minn. Stat. §§ 471.59 and 256B.692, for the purpose of organizing, governing, planning, and administering a county-based purchasing entity to participate in prepaid health care programs through the Minnesota Department of Human Services and the federal Centers for Medicare and Medicaid Services. In 2012, St. Louis County joined the Arrowhead Health Alliance.

Control of the Arrowhead Health Alliance is vested in a Board of Directors composed of one representative from each of the member counties. Lake County is the fiscal agent for the Arrowhead Health Alliance. The Arrowhead Health Alliance is accounted for in an agency fund of Lake County.

Carlton County contributed \$252,397 in start-up funds to the Arrowhead Health Alliance in 2007. Carlton County provided \$6,865 in funding in 2017.

Northeast Minnesota Regional Radio Board

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

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northeast Minnesota Regional Radio Board (Continued)

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

Separate financial information can be obtained from:

Itasca County
123 Northeast 4th Street
Grand Rapids, Minnesota 55744-2847

Region Two - Northeast Minnesota Homeland Security Emergency Management Organization

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

Minnesota Criminal Justice Data Communications Network

The Minnesota Criminal Justice Data Communications Network Joint Powers Agreement exists to create access for the County Sheriff and County Attorney to systems and tools available from the State of Minnesota, Department of Public Safety, and the Bureau of Criminal Apprehension to carry out criminal justice. During the year, Carlton County made no payments to the joint powers.

**CARLTON COUNTY
CARLTON, MINNESOTA**

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

E. Tax-Forfeited Land

The County manages approximately 72,000 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.

F. Carlton County Economic Development Authority

In May 2008, the Carlton County Board passed a resolution establishing the Carlton County Economic Development Authority (EDA) having the powers and duties of an economic development authority under Minn. Stat. §§ 469.090-469.1081 and of a housing authority under Minn. Stat. §§ 469.001-469.047. The Carlton County EDA bylaws were adopted on February 9, 2010, and the EDA's Board was appointed on March 9, 2010.

The EDA currently operates as a department of Carlton County's General Fund, and has not officially organized as a separate, legal entity. The EDA consists of a nine-member Board, which serves in an advisory capacity to the Carlton County Board of Commissioners, and two County Commissioners are appointed to the EDA Board.

REQUIRED SUPPLEMENTARY INFORMATION

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**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 14,438,697	\$ 14,438,697	\$ 14,216,545	\$ (222,152)
Special assessments	575,000	575,000	549,259	(25,741)
Licenses and permits	73,575	73,575	86,025	12,450
Intergovernmental	3,338,339	3,338,339	3,617,964	279,625
Charges for services	2,096,442	2,096,442	2,466,531	370,089
Fines and forfeits	45,000	45,000	52,084	7,084
Gifts and contributions	78,610	78,610	169,470	90,860
Investment earnings	97,400	97,400	430,447	333,047
Miscellaneous	717,922	717,922	610,541	(107,381)
Total Revenues	\$ 21,460,985	\$ 21,460,985	\$ 22,198,866	\$ 737,881
Expenditures				
Current				
General government				
Commissioners	\$ 471,012	\$ 471,012	\$ 354,540	\$ 116,472
Restorative justice	207,145	207,145	225,444	(18,299)
Courts	139,857	139,857	209,103	(69,246)
County auditor	1,176,543	1,176,543	1,017,522	159,021
License bureau	387,063	387,063	391,268	(4,205)
County assessor	744,928	744,928	731,184	13,744
Personnel	510,136	510,136	500,786	9,350
Data processing	1,061,483	1,061,483	1,021,644	39,839
Attorney	1,306,181	1,306,181	1,266,699	39,482
Law library	35,000	35,000	35,793	(793)
Recorder	546,366	546,366	616,104	(69,738)
Surveyor	15,000	15,000	15,000	-
Planning and zoning	459,752	459,752	486,576	(26,824)
Maintenance	1,032,772	1,032,772	1,122,697	(89,925)
Veterans service officer	320,792	320,792	297,375	23,417
Community and family services	193,968	193,968	180,993	12,975
Total general government	\$ 8,607,998	\$ 8,607,998	\$ 8,472,728	\$ 135,270

**CARLTON COUNTY
CARLTON, MINNESOTA**

**EXHIBIT A-1
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 3,536,483	\$ 3,536,483	\$ 3,683,261	\$ (146,778)
Snowmobile safety	4,579	4,579	4,579	-
Boat and water safety	7,028	7,028	6,250	778
Ambulance	83,850	83,850	83,850	-
Animal control	40,000	40,000	40,000	-
Coroner	100,000	100,000	115,456	(15,456)
E-911	1,112,030	1,112,030	1,196,707	(84,677)
County jail	2,183,522	2,183,522	2,071,143	112,379
Community corrections	1,832,924	1,832,924	1,860,475	(27,551)
Court services	120,633	120,633	114,405	6,228
Civil defense	60,669	60,669	56,774	3,895
Total public safety	\$ 9,081,718	\$ 9,081,718	\$ 9,232,900	\$ (151,182)
Sanitation				
Solid waste	\$ 1,237,763	\$ 1,237,763	\$ 1,398,139	\$ (160,376)
Recycling	229,505	229,505	220,842	8,663
Total sanitation	\$ 1,467,268	\$ 1,467,268	\$ 1,618,981	\$ (151,713)
Culture and recreation				
Historical society	\$ 45,000	\$ 45,000	\$ 45,000	\$ -
County fair	37,750	37,750	37,750	-
Parks	76,087	76,087	262,401	(186,314)
Regional library	149,490	149,490	149,490	-
Total culture and recreation	\$ 308,327	\$ 308,327	\$ 494,641	\$ (186,314)
Conservation of natural resources				
County extension	\$ 515,666	\$ 515,666	\$ 534,194	\$ (18,528)
Soil and water conservation	152,715	152,715	152,715	-
Weed inspector	7,604	7,604	6,401	1,203
Timber development	12,000	12,000	56,090	(44,090)
Resource development	46,000	46,000	63,328	(17,328)
Water planning	170,403	170,403	178,076	(7,673)
Other conservation	7,600	7,600	4,350	3,250
Total conservation of natural resources	\$ 911,988	\$ 911,988	\$ 995,154	\$ (83,166)

**CARLTON COUNTY
CARLTON, MINNESOTA**

**EXHIBIT A-1
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Airport commission	\$ 565,431	\$ 565,431	\$ 454,678	\$ 110,753
Rail authority	300	300	2,800	(2,500)
Arrowhead Regional Development	53,627	53,627	-	53,627
Iron Range Resources and Rehabilitation Board	629,014	629,014	489,704	139,310
Total economic development	\$ 1,248,372	\$ 1,248,372	\$ 947,182	\$ 301,190
Total Expenditures	\$ 21,625,671	\$ 21,625,671	\$ 21,761,586	\$ (135,915)
Excess of Revenues Over (Under)				
Expenditures	\$ (164,686)	\$ (164,686)	\$ 437,280	\$ 601,966
Other Financing Sources (Uses)				
Transfers in	\$ 236,680	\$ 236,680	-	\$ (236,680)
Transfers out	(100,000)	(100,000)	(11,971)	88,029
Total Other Financing Sources (Uses)	\$ 136,680	\$ 136,680	\$ (11,971)	\$ (148,651)
Net Change in Fund Balance	\$ (28,006)	\$ (28,006)	\$ 425,309	\$ 453,315
Fund Balance - January 1	19,602,174	19,602,174	19,602,174	-
Fund Balance - December 31	\$ 19,574,168	\$ 19,574,168	\$ 20,027,483	\$ 453,315

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 7,222,886	\$ 7,222,886	\$ 4,782,234	\$ (2,440,652)
Intergovernmental	4,557,666	4,557,666	7,301,310	2,743,644
Charges for services	469,000	469,000	472,268	3,268
Investment earnings	-	-	5,343	5,343
Miscellaneous	286,305	286,305	743,892	457,587
Total Revenues	\$ 12,535,857	\$ 12,535,857	\$ 13,305,047	\$ 769,190
Expenditures				
Current				
Highways and streets				
Administration	\$ 759,290	\$ 759,290	\$ 731,710	\$ 27,580
Maintenance	3,403,656	3,403,656	3,667,419	(263,763)
Construction	6,699,000	6,699,000	9,764,674	(3,065,674)
Equipment maintenance and shop	1,673,911	1,673,911	1,483,590	190,321
Total Expenditures	\$ 12,535,857	\$ 12,535,857	\$ 15,647,393	\$ (3,111,536)
Net Change in Fund Balance	\$ -	\$ -	\$ (2,342,346)	\$ (2,342,346)
Fund Balance - January 1	6,879,482	6,879,482	6,879,482	-
Increase (decrease) in inventories	-	-	(13,087)	(13,087)
Fund Balance - December 31	\$ 6,879,482	\$ 6,879,482	\$ 4,524,049	\$ (2,355,433)

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 7,479,873	\$ 7,479,873	\$ 7,298,554	\$ (181,319)
Intergovernmental	10,085,460	10,085,460	10,093,903	8,443
Charges for services	1,767,724	1,767,724	2,085,374	317,650
Gifts and contributions	72,320	72,320	62,674	(9,646)
Miscellaneous	257,400	257,400	314,719	57,319
Total Revenues	\$ 19,662,777	\$ 19,662,777	\$ 19,855,224	\$ 192,447
Expenditures				
Current				
Human services				
Income maintenance	\$ 5,143,594	\$ 5,143,594	\$ 4,878,821	\$ 264,773
Social services	13,185,742	13,185,742	11,983,010	1,202,732
Total human services	\$ 18,329,336	\$ 18,329,336	\$ 16,861,831	\$ 1,467,505
Health	1,579,487	1,579,487	1,444,341	135,146
Total Expenditures	\$ 19,908,823	\$ 19,908,823	\$ 18,306,172	\$ 1,602,651
Excess of Revenues Over (Under) Expenditures	\$ (246,046)	\$ (246,046)	\$ 1,549,052	\$ 1,795,098
Other Financing Sources (Uses)				
Transfers in	13,400	13,400	11,971	(1,429)
Net Change in Fund Balance	\$ (232,646)	\$ (232,646)	\$ 1,561,023	\$ 1,793,669
Fund Balance - January 1	11,421,653	11,421,653	11,421,653	-
Fund Balance - December 31	\$ 11,189,007	\$ 11,189,007	\$ 12,982,676	\$ 1,793,669

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-4

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ -	\$ -	\$ 23,064	\$ 23,064
Miscellaneous	445,839	445,839	556,502	110,663
Total Revenues	\$ 445,839	\$ 445,839	\$ 579,566	\$ 133,727
Expenditures				
Current				
Conservation of natural resources				
Land use	445,839	445,839	489,020	(43,181)
Net Change in Fund Balance	\$ -	\$ -	\$ 90,546	\$ 90,546
Fund Balance - January 1	107,526	107,526	107,526	-
Fund Balance - December 31	\$ 107,526	\$ 107,526	\$ 198,072	\$ 90,546

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-5

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Carlton County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.2463%	\$ 15,723,630	\$ 197,710	\$ 15,921,340	\$ 15,867,080	99.10%	75.90%
2016	0.2409	19,559,886	255,516	19,815,402	14,950,027	130.84	68.91
2015	0.2434	12,614,251	N/A	12,614,251	14,301,656	88.20	78.19

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-6

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2017	\$ 1,238,426	\$ 1,238,426	\$ -	\$ 16,512,347	7.50%
2016	1,151,435	1,151,435	-	15,352,467	7.50
2015	1,096,628	1,096,628	-	14,621,707	7.50

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-7

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.181%	\$ 2,443,715	\$ 1,860,772	131.33%	85.43%
2016	0.186	7,464,504	1,791,093	416.76	63.88
2015	0.180	2,045,221	1,646,691	124.20	86.61

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-8

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2017	\$ 319,460	\$ 319,460	\$ -	\$ 1,971,975	16.20%
2016	287,427	287,427	-	1,774,241	16.20
2015	282,619	282,619	-	1,744,562	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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-9

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.49%	\$ 1,396,505	\$ 982,183	142.18%	67.89%
2016	0.45	1,643,914	845,589	194.41	58.16
2015	0.43	66,478	779,829	8.52	96.95

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-10

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2017	\$ 89,907	\$ 89,907	\$ -	\$ 1,027,509	8.75%
2016	78,221	78,221	-	893,954	8.75
2015	71,483	71,483	-	816,949	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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

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

1. Budgetary Information

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

In July of each year, all departments and agencies submit requests for appropriations to the County Auditor/Treasurer so that a budget can be prepared. Before September 30, the proposed budget is presented to the County Board for review. A final budget is adopted by the Board and certified to the Auditor/Treasurer by December 20.

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2017, expenditures exceeded appropriations in the following funds:

	Final Budget	Actual	Excess
General Fund	\$ 21,625,671	\$ 21,761,586	\$ 135,915
Road and Bridge Special Revenue Fund	12,535,857	15,647,393	3,111,536
Forfeited Tax Special Revenue Fund	445,839	489,020	43,181

**CARLTON COUNTY
CARLTON, MINNESOTA**

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

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

General Employees Retirement Plan

2017

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.0 percent for active member liability, 15 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21,000,000 in calendar years 2017 and 2018 and returns to \$31,000,000 through calendar year 2031. The state's required contribution is \$16,000,000 in PERA's fiscal years 2018 and 2019 and returns to \$6,000,000 annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

**CARLTON COUNTY
CARLTON, MINNESOTA**

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

Public Employees Police and Fire Plan

2017

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- The assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 33 percent for vested members and 2.0 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.
- The assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- The assumed percentage of married female members was decreased from 65 percent to 60 percent.
- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing joint and survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent for all years to 1.0 percent per year through 2064 and 2.5 percent thereafter.

**CARLTON COUNTY
CARLTON, MINNESOTA**

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

Public Employees Police and Fire Plan

2017 (Continued)

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

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Correctional Plan

2017

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2016).
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1.0 percent for non-vested members.

**CARLTON COUNTY
CARLTON, MINNESOTA**

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

Public Employees Correctional Plan

2017 (Continued)

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

2016

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

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OTHER INFORMATION

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**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,054,605	\$ 1,054,605	\$ 1,039,195	\$ (15,410)
Intergovernmental	-	-	22,478	22,478
Total Revenues	\$ 1,054,605	\$ 1,054,605	\$ 1,061,673	\$ 7,068
Expenditures				
Debt service				
Principal	\$ 740,000	\$ 740,000	\$ 740,000	\$ -
Interest	314,605	314,605	206,645	107,960
Administrative charges	-	-	1,350	(1,350)
Total Expenditures	\$ 1,054,605	\$ 1,054,605	\$ 947,995	\$ 106,610
Net Change in Fund Balance	\$ -	\$ -	\$ 113,678	\$ 113,678
Fund Balance - January 1	1,936,836	1,936,836	1,936,836	-
Fund Balance - December 31	\$ 1,936,836	\$ 1,936,836	\$ 2,050,514	\$ 113,678

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**CARLTON COUNTY
CARLTON, MINNESOTA**

FIDUCIARY FUNDS

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

Motor Vehicle Registration
Employee Flexible Benefits
State
School Districts
Towns and Cities
Taxes and Penalties
Northeastern Waste Advisory Council
Refunding
Collaborative

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**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT C-1

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>MOTOR VEHICLE REGISTRATION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 4,993,948	\$ 4,993,948	\$ -
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 4,993,948	\$ 4,993,948	\$ -
 <u>EMPLOYEE FLEXIBLE BENEFITS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 79,635	\$ 118,367	\$ 117,268	\$ 80,734
<u>Liabilities</u>				
Accounts payable	\$ 79,635	\$ 118,367	\$ 117,268	\$ 80,734
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 118,277	\$ 5,748,404	\$ 5,781,481	\$ 85,200
<u>Liabilities</u>				
Due to other governments	\$ 118,277	\$ 5,748,404	\$ 5,781,481	\$ 85,200

**CARLTON COUNTY
CARLTON, MINNESOTA**

*EXHIBIT C-1
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 235,863	\$ 13,180,987	\$ 13,214,803	\$ 202,047
<u>Liabilities</u>				
Due to other governments	\$ 235,863	\$ 13,180,987	\$ 13,214,803	\$ 202,047
 <u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 178,376	\$ 11,610,262	\$ 11,643,618	\$ 145,020
<u>Liabilities</u>				
Due to other governments	\$ 178,376	\$ 11,610,262	\$ 11,643,618	\$ 145,020
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 56,087,563	\$ 56,087,563	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 56,087,563	\$ 56,087,563	\$ -

**CARLTON COUNTY
CARLTON, MINNESOTA**

*EXHIBIT C-1
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>NORTHEASTERN WASTE ADVISORY COUNCIL</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 953	\$ -	\$ -	\$ 953
<u>Liabilities</u>				
Due to other governments	\$ 953	\$ -	\$ -	\$ 953
 <u>REFUNDING</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,071,158	\$ 1,191,474	\$ 839,965	\$ 1,422,667
<u>Liabilities</u>				
Due to other governments	\$ 1,071,158	\$ 1,191,474	\$ 839,965	\$ 1,422,667
 <u>COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 338,154	\$ 207,823	\$ 198,412	\$ 347,565
<u>Liabilities</u>				
Due to other governments	\$ 338,154	\$ 207,823	\$ 198,412	\$ 347,565

**CARLTON COUNTY
CARLTON, MINNESOTA**

*EXHIBIT C-1
(Continued)*

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,022,416	\$ 93,138,828	\$ 92,877,058	\$ 2,284,186
<u>Liabilities</u>				
Accounts payable	\$ 79,635	\$ 5,112,315	\$ 5,111,216	\$ 80,734
Due to other governments	1,942,781	88,026,513	87,765,842	2,203,452
Total Liabilities	\$ 2,022,416	\$ 93,138,828	\$ 92,877,058	\$ 2,284,186

OTHER SCHEDULE

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**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT D-1

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

Appropriations and Shared Revenue

State

Highway users tax	\$	6,962,716
County program aid		1,992,132
PERA rate reimbursement		54,851
Disparity reduction aid		371,580
Police aid		179,842
E-911		113,901
SCORE		105,258
Market value credit		171,815
Casino revenue aid		55,053
		55,053

Total appropriations and shared revenue **\$ 10,007,148**

Reimbursement for Services

Minnesota Department of Human Services	\$	2,246,800
		2,246,800

Payments

Local

Other local contributions	\$	127,294
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State

Payments in lieu of taxes		395,818
		395,818

Total payments **\$ 523,112**

Grants

State

Minnesota Department/Board of		
Crime Victim Services	\$	17,782
Public Safety		74,474
Transportation		103,606
Health		290,336
Natural Resources		265,872
Human Services		2,206,369
Water and Soil Resources		84,631
Labor and industry		5,261
Minnesota Pollution Control Agency		25,931
Iron Range Resources and Rehabilitation Board		244,433
		244,433

Total state **\$ 3,318,695**

**CARLTON COUNTY
CARLTON, MINNESOTA**

**EXHIBIT D-1
(Continued)**

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

Grants (Continued)

Federal

Department of Agriculture	\$ 548,557
Public Safety	52,418
Transportation	193,519
Education	12,010
Health and Human Services	4,132,566
Homeland Security	23,894

Total federal grants **\$ 4,962,964**

Total state and federal grants **\$ 8,281,659**

Total Intergovernmental Revenue **\$ 21,058,719**

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

Independent Auditor's Report

Board of County Commissioners
Carlton County
Carlton, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carlton County, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 13, 2018. We have issued an adverse opinion on the governmental activities' financial statements because Carlton County has reported neither capital assets nor other postemployment benefits (OPEB) obligations in the Statement of Net Position and has reported neither the related depreciation nor the change in the net OPEB obligations in the Statement of Activities, as required by accounting principles generally accepted in the United States of America. Also, capital expenditures have not been eliminated from the Statement of Activities.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other items that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 1996-011 and 2008-001 to be material weaknesses and items 1996-012, 1996-018, 2006-003, 2006-004, and 2006-005 to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that Carlton County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

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

Carlton County's Response to Findings

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 13, 2018

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Carlton County
Carlton, Minnesota

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Carlton 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 Carlton County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Carlton 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.

Report on Internal Control Over Compliance

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

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

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 13, 2018

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REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Independent Auditor's Report

Board of County Commissioners
Carlton County
Carlton, Minnesota

We have audited the accompanying Schedule of Expenditures of Federal Awards (SEFA) of Carlton County, Minnesota, for the year ended December 31, 2017.

Management's Responsibility for the SEFA

Management is responsible for the preparation and fair presentation of the SEFA 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 a SEFA that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on Carlton County's SEFA based on our audit. We conducted our audit 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 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 the SEFA is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the SEFA. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the SEFA, 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 SEFA in order to design audit procedures that are

appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the SEFA.

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

Opinion

In our opinion, the SEFA presents fairly, in all material respects, the expenditures of federal awards of Carlton County for the year ended December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 13, 2018

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

**CARLTON COUNTY
CARLTON, MINNESOTA**

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

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Adverse on the government-wide financial statements because Carlton County has not reported and depreciated capital assets and eliminated capital outlay expenditures in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Also, the County has not reported a liability and related expense for other postemployment benefits in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.**

The opinions on the financial statements of each major fund and the aggregate remaining fund information are unmodified.

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None Reported**

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

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

The major federal programs are:

Child Support Enforcement
Medicaid Cluster

CFDA No. 93.563
CFDA No. 93.778

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 1996-011

Capital Assets

Criteria: GASB Statement 34 requires governments to include capital assets on the Statement of Net Position and to report depreciation expense for those assets on the Statement of Activities. In addition, capital outlay expenditures in a governmental fund's Statement of Revenues, Expenditures, and Changes in Fund Balance are eliminated in the Statement of Activities. Current GAAP also require capital assets be valued at historical cost or, if historical cost data are not available, estimated cost.

Condition: The County does not maintain capital asset records, which show cost or estimated historical cost, and has not properly reported capital assets in its government-wide financial statements.

Context: To comply with GASB Statement 34, the County must establish accounting policies for capital assets, including capitalization thresholds, useful lives, and the designation of specific general ledger accounting codes to record the purchases and construction costs of capital assets. Capital assets, as defined by GASB Statement 34, include: land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible and intangible assets used in operations and that have initial useful lives extending beyond a reporting period. The County must establish a capital asset accounting system capable of providing the information needed to comply with the reporting requirements of GASB Statement 34. Information needed for reporting includes

capital assets by major asset category, capital outlay expenditures by department and major expenditure function, and depreciation expense by department and major expenditure function.

Effect: Because Carlton County has not complied with the requirements of GASB Statement 34, an adverse opinion is issued on the government-wide financial statements.

Cause: Carlton County has not developed a comprehensive capital asset policy, nor undertaken a study to properly value its capital assets in accordance with generally accepted accounting principles.

Recommendation: In order to improve control over capital assets, eliminate the adverse opinion in relation to capital assets, and comply with the requirements of GASB Statement 34, a record-keeping system should be established for capital assets. The County Board should take steps to establish formal policies and procedures for implementing a capital asset system. Below is an outline for developing and maintaining a capital asset inventory system:

1. Adopt a capitalization policy that sets a minimum dollar value for an asset to be accounted for on the capital asset system. Determine the useful lives for various classes of assets to be used for depreciation purposes and the general ledger account codes to be used to record capital asset transactions.
2. Identify the information that will need to be captured by a capital asset accounting system, and establish a system that will provide the information needed to comply with the reporting requirements of GASB Statement 34.
3. Inventory all capital assets, including infrastructure assets, owned by the County, and assign responsibility for each asset to a particular department head or official.
4. Assign actual or estimated historical cost to each item. Enter the information into the capital asset system.
5. Maintain the capital asset accounting system on a current basis. Procedures will need to be established on how disposals of capital assets will be identified by department heads and how the information will be transmitted to the person responsible for maintaining the capital asset system.
6. Periodically verify departmental inventory by physical inspection.

View of Responsible Official: Concur

Finding Number 1996-012

Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. This responsibility includes the internal controls over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system.

Condition: Several of Carlton County's departments that collect fees lack proper segregation of the accounting functions necessary to ensure adequate internal accounting control. Generally, one staff person is responsible for billing, collecting, depositing, and recording receipts as well as reconciling bank accounts.

Context: The small size and available staffing within some departments of Carlton County limits the internal control that management can design and implement into the organization.

Effect: Without proper segregation of duties, opportunities for errors or fraudulent activities to occur are created and may not be detected in a timely manner.

Cause: This condition is not unusual for an organization the size of Carlton County, where, because of staffing limitations, it is impractical to achieve a desirable level of segregation of duties. Management has identified departments where inadequate segregation of duties issues exist. Management has determined that, given limited resources, it is not feasible to achieve the desired level of segregation of duties in these departments.

Recommendation: Management should be continually aware that segregation of duties is not adequate from an internal control point of view. We recommend the County Board of Commissioners be aware that limited staffing causes inherent risks in safeguarding the County's assets and the proper reporting of its financial activity. We recommend the Board of Commissioners continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

View of Responsible Official: Acknowledged

Finding Number 1996-018

Jail Canteen Account

Criteria: The County Sheriff operates a canteen fund to purchase and sell items used by the prisoners in the jail in accordance with Minnesota Department of Corrections Rule No. 2911.4800. Revenues received from the sale of items and all purchases of goods for resale are handled through a separate checking account. Profits from the canteen operation are turned over to the County and recorded on the County's general ledger system.

Condition: The activity of the Sheriff's canteen fund is not fully accounted for in the general ledger of Carlton County. Profits are turned over to the County, but the remainder of the activity is not accounted for in the County's general ledger.

Context: It is our belief that canteen funds meet the criteria of County funds and should be accounted for in the County's general ledger system. The funds are both collected and administered by on-duty public employees acting on behalf of the County, using County facilities, and fulfilling their responsibilities to care for County prisoners.

Effect: Canteen fund activity is not being properly recorded in the accounting records of Carlton County. This condition results in a potential weakness in internal control over accounting for revenues and expenditures of the County's canteen fund. The recording of these funds on the County's general ledger system would not preclude the County Board from using the profits of the canteen fund for the benefit of the inmates.

Cause: The canteen fund has been in operation for many years. It was originally established as a separate fund and has continued to operate in that manner. It is unknown how the original start-up inventory was funded.

Recommendation: We recommend the full operations of the jail canteen fund be recorded on the County's general ledger system. This would include depositing all money received from sales and making all purchases with County warrants. If the County Board consents, these funds may be dedicated and used for the benefit of inmates.

View of Responsible Official: Acknowledged

Finding Number 2006-003

Journal Entries

Criteria: Carlton County limits access to the journal entry function on the Integrated Financial System (IFS) to select County employees. The ability to make journal entries on the IFS general ledger is a powerful function. It allows those employees with access to the journal entry function to make changes to the general ledger system. To prevent abuse of this function, it should be limited to those employees who have a logical need for this access. A procedure for review and approval of the journal entries made should also be in place.

Condition: Appropriate County management does not review or approve journal entries made by staff.

Context: Carlton County seldom uses journal entries for making adjustments to the financial records. Adjustments are posted to the general ledger as negative receipts and disbursements where corrections are required. Journal entries are generally used only in unusual circumstances and in financial closing procedures.

Effect: Lack of a review and approval process for journal entries exposes the County to potential for errors or fraudulent activities to occur and remain undetected.

Cause: The County has not developed procedures for review and approval of journal entries.

Recommendation: We recommend the County Auditor/Treasurer annually review the access to the journal entry function to determine whether it remains appropriate. We also recommend a procedure be established to require review and approval of journal entries by someone other than the person making the journal entries. This person should obtain an understanding of the journal entry and its purpose before approval. The approval could be documented by signature on a journal entry form or a printed copy of the journal entry made. Supporting documentation or sufficient explanation should be attached to or included on the journal entry to explain why the journal entry is being made and who is making the journal entry. Journal entries should be filed in a manner that allows for their review should questions arise. A report should be generated from the IFS that lists all journal entries made. The person charged with review and approval of journal entries should periodically review this report to ensure no journal entries have been made that were not submitted for review and approval.

View of Responsible Official: Acknowledged

Finding Number 2006-004

Accounting Policies and Procedures Manual

Criteria: All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures that make up the government's internal control system.

Condition: The County does not have a current and comprehensive accounting policies and procedures manual.

Context: An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the County's internal control system and can help to avoid circumvention of County policies.

Effect: In lieu of formal written accounting policies and procedures, informal practices and procedures can become unwritten standards that can have unintended consequences. Without a concisely written comprehensive policies and procedures manual clearly identifying County policies and procedures required to be followed, potential misunderstandings or abusive practices may occur.

Cause: Carlton County has never formalized its policies and procedures in a comprehensive manual.

Recommendation: We recommend the County Auditor/Treasurer establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

View of Responsible Official: Acknowledged

Finding Number 2006-005

Computer Risk Management

Criteria: Risk management begins with a risk assessment of the County's computer system to identify those risks that could negatively influence computer operations. Internal controls should be implemented to reduce the identified risks. Internal controls implemented should be documented in a well-maintained policies and procedures manual, which should be communicated to the County's staff. Staff adherence to these policies and procedures should be monitored. Because computer systems are ever changing, the County should include in its plan periodic reassessment of risk to ensure existing internal controls are still effective.

Condition: The County has internal controls in place for its computer system. However, the County has not developed a formal plan to identify and manage risks associated with its computer system.

Context: A well-developed formal plan of risk identification can assist management and governance in identifying potential risks and develop plans to mitigate or eliminate those risks.

Effect: Unanticipated risks may present themselves that County management and governance could potentially be unprepared to respond to in a timely and effective manner.

Cause: The County has not taken steps to implement a formal plan to identify potential risks that could negatively affect internal controls operating over County computer operations.

Recommendation: We recommend the County Board develop a plan to ensure that internal controls are in place to reduce the risk associated with the County's computer systems.

View of Responsible Official: Acknowledged

Finding Number 2008-001

Other Postemployment Benefits (OPEB)

Criteria: The GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which provides the accounting and reporting standards for OPEB offered to retirees. GASB Statement 45 was applicable to Carlton County for the year ended December 31, 2008.

Condition: GASB Statement 45 has not yet been implemented by Carlton County as required. The County has not undergone an actuarial study to determine its OPEB liability. The County has not reported its OPEB liability or the change to the net OPEB obligation in the governmental activities.

Context: The County should have determined its net OPEB liability and annual OPEB cost in accordance with GASB Statement 45.

Effect: Because Carlton County has not complied with the requirements of GASB Statement 45, an adverse opinion is issued on the government-wide financial statements.

Cause: The County has not hired an actuary to determine its OPEB liability and annual cost necessary to meet the requirements for financial reporting under GASB Statement 45.

Recommendation: We recommend the County Board determine the County's net OPEB liability and annual OPEB cost in accordance with the requirements of GASB Statement 45. This will require the County Board to contract with an actuarial service to determine the liability.

View of Responsible Official: Concur

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 1996-026

Disaster Recovery Plan

Criteria: To effectively deal with a disaster affecting computer operations, the County should have a complete, current, and detailed disaster recovery plan in effect. Formalized procedures should be documented in the plan for the restoration of critical systems, retention and restoration of data, and identification of key personnel.

Condition: The County has a disaster recovery plan in the event of a disaster involving its computer system. Since the plan was written, new computer systems and software have been implemented that make the disaster recovery plan outdated.

Context: With the increased importance of, and reliance on, data processing in the day-to-day operations of the County, an outdated or incomplete disaster recovery plan could delay the County's return to normal operations after a disaster.

Effect: Relying on an outdated disaster recovery plan exposes the County to potential risk to its critical IT systems and data.

Cause: The plan has not been updated since 1993.

Recommendation: We recommend the head of the County Data Processing Department update the disaster recovery plan to reflect new systems, software, and changes in personnel and operations that have occurred over the years since the plan was last updated.

View of Responsible Official: Acknowledged

Finding Number 1998-007

Contract Change Orders

Criteria: The County should develop a policy to identify when change orders on contracts should be brought before the County Board for approval.

Condition: In a prior year, the County had an overrun of \$107,475 on the Law Enforcement Center remodeling that had to be absorbed by the General Fund. Change orders on this contract had been approved by the project architects and the project manager; however, they had not been approved by the County Board.

Context: The County Board does not have a clear policy as to whether all contract change orders are to be approved by the Board. The County has a draft policy, but it has not yet been approved by the County Board.

Effect: It is important that the Board issue a policy identifying which change orders must be approved by the County Board when they involve the use of County resources to fund any project overruns.

Cause: The County lacks a formal change order policy.

Recommendation: We recommend the County Board draft a clear policy on the procedures to be followed for change orders that states when change orders should be brought before the Board for approval.

View of Responsible Official: Acknowledged

B. OTHER MATTER

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2014-002

Documentation of Capital Assets

Program: U.S. Department of Transportation's Airport Improvement Program (CFDA No. 20.106) Award Nos. SP 902-54 and SP 904-35, 2014 and 2015

Pass-Through Agency: Minnesota Department of Transportation

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303(a) states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. In addition, the County is required to comply with the provisions for equipment and real property management in Part 3 of the 2015 OMB *Compliance Supplement*, which include establishing policies and procedures for equipment management.

Condition: The County does not have policies or procedures in place to properly track equipment acquired under this grant.

Questioned Costs: None.

Context: The County should have policies and procedures in place to ensure that any equipment acquired under the grant is properly tracked.

Effect: Equipment purchased under this grant was not properly tracked by the County.

Cause: Carlton County has not developed a comprehensive capital asset policy, nor has it developed a procedure to track and maintain a capital asset listing of equipment.

Recommendation: We recommend the County establish a record-keeping system for capital assets and establish formal written policies and procedures to track equipment purchased under this grant in accordance with equipment and real property management requirements.

View of Responsible Official: Acknowledged

V. PREVIOUSLY REPORTED ITEMS RESOLVED

2008-002 Collateral Assignments

2012-002 Timeliness of Preparation of Financial Statements

2015-001 Medical Assistance Eligibility (CFDA No. 93.778)

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Commissioners Office

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FIRST DISTRICT
Dick Brenner, Cloquet
SECOND DISTRICT
Marv Bodie, Esko
THIRD DISTRICT
Thomas Proulx, Cloquet
FOURTH DISTRICT
Susan Zmyslony, Moose Lake
FIFTH DISTRICT
Gary Peterson, Barnum

REPRESENTATION OF CARLTON COUNTY CARLTON, MINNESOTA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2017

Finding Number: 1996-011

Finding Title: Capital Assets

Name of Contact Person Responsible for Corrective Action:

Paul Gassert - County Auditor/Treasurer

Corrective Action Planned:

The County is working toward implementing a record-keeping system to track and report capital assets in accordance with GASB Statement No. 34. A capital asset policy is in the process of being drafted and approved. The County has done limited research to assist in the determination of their capital asset valuation and, if necessary, will contract with a vendor to assist in the recording of the County's capital assets and their valuations.

Anticipated Completion Date:

December 31, 2018

Finding Number: 1996-012

Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action:

Paul Gassert - County Auditor/Treasurer

Corrective Action Planned:

The Carlton County Board of Commissioners is aware of the existing conditions with regard to the segregation of duties. To date, within the Transfer Station, video monitors were installed so as to allow management the ability to view cashiering staff in their daily actions, monies are deposited daily, and Auditor/Treasurer personnel perform periodic spontaneous cash counts. The Board and management do and will continue to review the duties and responsibilities of County Staff and to make appropriate changes where necessary and feasible.

Anticipated Completion Date:

Ongoing

Finding Number: 1996-018

Finding Title: Jail Canteen Account

Name of Contact Person Responsible for Corrective Action:

Paul Gassert - County Auditor/Treasurer
(in conjunction with County Sheriff Department/Jail Division staff)

Corrective Action Planned:

The County Auditor/Treasurer staff, in conjunction with County Sheriff/Jail Division staff, are working to resolve this issue. The County has entered into a new contract for jail vending services; it is hoped that this issue can be resolved in the near future.

Anticipated Completion Date:

December 31, 2018

Finding Number: 2006-003

Finding Title: Journal Entries

Name of Contact Person Responsible for Corrective Action:

Paul Gassert - County Auditor/Treasurer

Corrective Action Planned:

The County Auditor/Treasurer staff will review the access to journal entry functions so as to determine the need for access by selected employees. It is further the intent of the Auditor/Treasurer Office to establish review and approval procedures for all journal entries. To date, a formal review and approval process policy has not been formally established and approved.

Anticipated Completion Date:

December 31, 2018

Finding Number: 2006-004

Finding Title: Accounting Policies and Procedures Manual

Name of Contact Person Responsible for Corrective Action:

Paul Gassert - County Auditor/Treasurer

Corrective Action Planned:

A 'draft' of the manual has been prepared and is currently being reviewed by the Carlton County Policy Committee.

Anticipated Completion Date:

December 31, 2018

Finding Number: 2006-005

Finding Title: Computer Risk Management

Name of Contact Person Responsible for Corrective Action:

Paul Gassert - County Auditor/Treasurer
(in conjunction with IT Office staff)

Corrective Action Planned:

The County Board, in conjunction with IT staff, will work to develop a plan to ensure internal controls are in place so as to reduce the risk associated with the County computer systems. A 'draft' of the plan is being prepared for review and approval by the Carlton County Policy Committee; the plan has not yet been formally accepted by the County Board.

Anticipated Completion Date:

December 31, 2018

Finding Number: 2008-001

Finding Title: Other Postemployment Benefits (OPEB)

Name of Contact Person Responsible for Corrective Action:

Paul Gassert - County Auditor/Treasurer
(in conjunction with HR staff)

Corrective Action Planned:

The County Board will work to determine the County's net OPEB liability so as to be GASB 45 compliant. To date, the County has yet to have an actuarial study completed, and has not reported its OPEB liability or the change to its OPEB obligation in its governmental activities.

Anticipated Completion Date:

December 31, 2018/2019

Finding Number: 1996-026

Finding Title: Disaster Recovery Plan

Name of Contact Person Responsible for Corrective Action:

Paul Gassert - County Auditor/Treasurer
(in conjunction with IT Office staff)

Corrective Action Planned:

The County Board, in conjunction with IT staff, will update the plan to ensure that adequate safety measures are in place in the event of a disaster involving the County's computer systems and software. To date, the County has taken steps to share a 'hosted' computer at an offsite location; the underlying disaster recovery plan has not been updated.

Anticipated Completion Date:

Ongoing

Finding Number: 1998-007
Finding Title: Contract Change Orders

Name of Contact Person Responsible for Corrective Action:

Paul Gassert - County Auditor/Treasurer

Corrective Action Planned:

Although a 'draft' of a policy has been prepared and is currently being reviewed by the Carlton County Policy Committee, the policy has not yet been formally accepted by the County Board.

Anticipated Completion Date:

Ongoing

Finding Number: 2014-002
Finding Title: Documentation of Capital Assets
Program: Airport Improvement Program (CFDA No. 20.106)

Name of Contact Person Responsible for Corrective Action:

Paul Gassert - County Auditor/Treasurer
(in conjunction with Transportation Department staff)

Corrective Action Planned:

The County Board will work to establish a record-keeping system for capital assets and establish formal written policies and procedures to track equipment purchased under federal grants in accordance with equipment and real property management requirements. To date, the Corrective Action Plan has not been completed. (It should be noted that, at this time, no additional equipment has been purchased under the Airport Improvement Program.)

Anticipated Completion Date:

Ongoing

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REPRESENTATION OF CARLTON COUNTY CARLTON, MINNESOTA

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

Finding Number: 1996-011

Finding Title: Capital Assets

Summary of Condition: Carlton County does not report capital assets on their Statement of Net Position as required by the Governmental Accounting Standards Board Statement No. 34. This is due to the County not maintaining a complete and accurate record of capital assets owned.

Summary of Corrective Action Previously Reported: The County is working to resolve this condition. To date, a draft Capital Asset Policy has been prepared to assist with accounting for capital assets within Carlton County, including capitalization thresholds, useful lives, and the designation of specific general ledger accounting codes to record the purchases and construction costs of capital assets. In addition to this, the County has researched various records and obtained financial information which will be used to assist in determining historical costs of some of the older county assets, including, but not limited to, the Courthouse Building.

Status: Not Corrected. Capital asset records are still not completed and reported. The County continues to accumulate information and formulate a process for a capital asset management system to record and maintain accurate records of the County's capital assets.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X

Finding Number: 1996-012

Finding Title: Segregation of Duties

Summary of Condition: Several of Carlton County's departments that collect fees lack proper segregation of the accounting functions to ensure adequate internal accounting control. Generally, one staff person is responsible for billing, collecting, depositing, and recording receipts as well as reconciling bank accounts.

Summary of Corrective Action Previously Reported: The Carlton County Board of Commissioners is aware of the existing conditions with regard to the segregation of duties.

Status: Partially Corrected. Within the Transfer Station, video monitors were installed so as to allow management the ability to view cashiering staff in their daily actions. Monies are deposited daily and Auditor/Treasurer personnel perform periodic spontaneous cash counts. The Board and management do and will continue to review the duties and responsibilities of County staff and make appropriate changes where necessary and feasible.

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

Finding Number: 1996-018

Finding Title: Jail Canteen Account

Summary of Condition: The activity of the Sheriff's canteen fund is not fully accounted for in the general ledger of Carlton County. Profits are turned over to the County, but the remainder of the activity is not accounted for in the County's general ledger.

Summary of Corrective Action Previously Reported: The County Auditor/Treasurer staff, in conjunction with Sheriff staff, are working to resolve this issue. The County did hire a new Jail Administrator, and has entered into a new contract for jail vending services; it is hoped that this issue can be resolved in the near future.

Status: Not Corrected. The County Auditor/Treasurer staff, in conjunction with Sheriff staff, continue to work to resolve this issue.

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

Finding Number: 2006-003

Finding Title: Journal Entries

Summary of Condition: Appropriate County supervisory staff do not review and/or approve journal entries created by staff.

Summary of Corrective Action Previously Reported: The County Auditor/Treasurer staff will review the access to journal entry functions so as to determine the need for access by selected employees. It is further the intent of the Auditor/Treasurer Office to establish review and approval procedures for all journal entries.

Status: Partially Corrected. Although a formal review and approval process policy has not been established, appropriate County supervisory staff do review and approve journal entries.

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

Finding Number: 2006-004

Finding Title: Accounting Policies and Procedures Manual

Summary of Condition: The County does not have a current and comprehensive accounting policies and procedures manual.

Summary of Corrective Action Previously Reported: The County Auditor/Treasurer staff will work with the State Auditor's Office staff (and other governmental entities) to establish an accounting policies and procedures manual. A 'draft' of the manual has been prepared and is currently being reviewed by the Carlton County Policy Committee.

Status: Partially Corrected. Although a 'draft' of the manual has been prepared for review and approval by the Carlton County Policy Committee, the manual has not yet been formally accepted by the County Board.

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

Finding Number: 2006-005

Finding Title: Computer Risk Management

Summary of Condition: The County has internal controls in place for its computer systems. However, the County has not developed a formal plan to identify and manage risks associated with its computer system.

Summary of Corrective Action Previously Reported: The County Board, in conjunction with IT staff, will develop a plan to ensure internal controls are in place so as to reduce the risk associated with the County computer systems.

Status: Not Corrected. The County Board, in conjunction with IT staff, are continuing work on the development of a plan to address this issue.

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

Finding Number: 2008-001

Finding Title: Other Postemployment Benefits (OPEB)

Summary of Condition: GASB Statement No. 45 has not yet been implemented by Carlton County. The County has not undergone an actuarial study to determine its OPEB liability. The County has not reported its OPEB liability or the change to the net OPEB obligation in its governmental activities.

Summary of Corrective Action Previously Reported: The County Board will work to determine the County's net OPEB liability so as to be GASB 45 compliant.

Status: Not Corrected. The County has yet to have an actuarial study completed, report its OPEB liability, or the change to its OPEB obligation in its governmental activities.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X

Finding Number: 2012-002

Finding Title: Timeliness of Preparation of Financial Statements

Summary of Condition: Certain information needed for financial reporting has not been prepared by County staff in advance of the annual audit. Although County staff have been attempting to provide all the necessary information as timely as possible during the audit, there have been delays in obtaining the information requested.

Summary of Corrective Action Previously Reported: The County Board is working to resolve this condition. To date, additional staff have been hired in the County Auditor/Treasurer Offices; one of the primary functions of the newly hired staff is to assist in ensuring that the necessary financial information is prepared in a manner that allows the auditors adequate time to complete their audit by the required deadlines.

Status: Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X

Finding Number: 2014-002

Finding Title: Documentation of Capital Assets

Program: Airport Improvement Program (CFDA No. 20.106)

Summary of Condition: Carlton County does not have formal policies and procedures in place to properly track equipment acquired under the U.S. Department of Transportation Airport Improvement Program (CFDA No. 20.106).

Summary of Corrective Action Previously Reported: The County Board will work to establish a record-keeping system for capital assets and establish formal written policies and procedures to track equipment purchased under federal grants in accordance with equipment and real property management requirements.

Status: Not Corrected. To date, the Corrective Action Plan has not been completed. (It should be noted that, at this time, no additional equipment has been purchased under the U.S. Department of Transportation Airport Improvement Program (CFDA No. 20.106)).

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

Finding Number: 2015-001

Finding Title: Medical Assistance Eligibility

Program: Medical Assistance Program (CFDA No. 93.778)

Summary of Condition: The State of Minnesota maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. During periodic case reviews of asset verification, it appears that Programming personnel did not ensure all information was entered into the MAXIS System, nor was all information verified.

Summary of Corrective Action Previously Reported: The County Board, acting through its Public Health and Human Services Offices, will work to establish and implement appropriate procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations are obtained and properly input into the MAXIS System.

Status: Fully Corrected. Corrective action was taken.

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

Finding Number: 2008-002

Finding Title: Collateral Assignments

Summary of Condition: Carlton County had deposits with Wells Fargo Bank. To secure these deposits, Wells Fargo Bank had pledged collateral to Carlton County. The pledge agreement on file did not contain the language required by Minnesota statute.

Summary of Corrective Action Previously Reported: The County will resolve this issue by choosing not to have deposits with Wells Fargo which would require pledged collateral.

Status: Fully Corrected. Corrective action was taken.

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

Finding Number: 1996-026

Finding Title: Disaster Recovery Plan

Summary of Condition: The County has a disaster recovery plan in the event of a disaster involving its computer system. Since the plan was written, new computer systems and software have been implemented that make the disaster recovery plan outdated.

Summary of Corrective Action Previously Reported: Carlton County recognizes that a Disaster Recovery Plan needs to be in place. The County Board, in conjunction with IT staff, will update the plan to ensure that adequate safety measures are in place in the event of a disaster involving the County's computer systems and software. The County has taken steps to share a "hosted" computer at an offsite location.

Status: Not Corrected. Although the County has taken steps to share a 'hosted' computer at an offsite location, the underlying disaster recovery plan has not been updated.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X

Finding Number: 1998-007

Finding Title: Contract Change Orders

Summary of Condition: The County does not have a current and comprehensive Contract Change Order policy.

Summary of Corrective Action Previously Reported: The County Board will adopt a formal policy with regard to contract and contract change orders to ensure that the County Board is aware of the change orders as they are incurred. A draft policy has been prepared and is under review.

Status: Partially Corrected. Although a 'draft' of a policy has been prepared for review and approval by the Carlton County Policy Committee, the manual has not yet been formally accepted by the County Board.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT D-2

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Agriculture			
Direct			
Environmental Quality Incentives Program	10.912		\$ 6,695
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	172MN004W1003	133,313
Passed Through Minnesota Department of Human Services SNAP Cluster			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	172MN101S2514	<u>408,549</u>
Total U.S. Department of Agriculture			<u>\$ 548,557</u>
U.S. Department of Justice			
Passed Through Minnesota Department of Public Safety Crime Victim Assistance	16.575	F-CVSP-2017-CARLTNAO	<u>\$ 52,418</u>
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Airport Improvement Program	20.106	SP 904-36	\$ 190,631
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	00009	<u>2,888</u>
Total U.S. Department of Transportation			<u>\$ 193,519</u>
U.S. Department of Education			
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board			
Special Education - Grants for Infants and Families	84.181	H181A150029	\$ 1,933
Passed Through Minnesota Department of Economic Development Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	Not available	<u>10,077</u>
Total U.S. Department of Education			<u>\$ 12,010</u>
U.S. Department of Health and Human Services			
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board			
Public Health Emergency Preparedness	93.069	NU90TP921911-01-00	\$ 25,872
Universal Newborn Hearing Screening	93.251	H61MC00035	225
Immunization Cooperative Agreements	93.268	68583	1,200
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	93.314	6 NUR3DD000842-05-01	150

**CARLTON COUNTY
CARLTON, MINNESOTA**

**EXHIBIT D-2
(Continued)**

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Health and Human Services			
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board (Continued)			
Maternal, Infant, and Early Childhood Home Visiting Cluster			
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	ID89MC28263-01-01	51,823
TANF Cluster			
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$399,211)	93.558	2017G996115	41,463
State Public Health Actions to Prevent and Control Diabetes, Heart Disease, Obesity, and Associated Risk Factors and Promote School Health, financed in part by Prevention and Public Health Funding (PPHF)			
	93.757	U58DP005452	24,564
Maternal and Child Health Services Block Grant to the States	93.994	B04MC29349	38,235
Passed Through Fond du Lac Tribal and Community College			
Pregnancy Assistance Fund Program	93.500	SP1AH000022-01-00	15,454
Passed Through Minnesota Department of Human Services			
Guardianship Assistance	93.090	1701MNGARD	13,694
Promoting Safe and Stable Families	93.556	G-1601MNFPS	15,466
TANF Cluster			
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$399,211)	93.558	1601MNTANF	357,748
Child Support Enforcement	93.563	1704MNCSES	963,591
Refugee and Entrant Assistance - State Administered Programs	93.566	1701MNRCA	1,017
CCDF Cluster			
Child Care and Development Block Grant	93.575	G1701MNCCDF	9,258
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFPG	20,090
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	12,026
Foster Care - Title IV-E	93.658	1701MNFOS	294,587
Adoption Assistance	93.659	1701MNADPT	65,142
Social Services Block Grant	93.667	G-1701MNSOSR	287,700
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	620
Children's Health Insurance Program	93.767	05-1705MN0301	522
Medicaid Cluster			
Medical Assistance Program	93.778	05-1705MN5MAP	13,005
Medical Assistance Program	93.778	05-1705MN5ADM	1,879,114
(Total Medical Assistance Program 93.778 \$1,892,119)			<u>1,879,114</u>
Total U.S. Department of Health and Human Services			<u>\$ 4,132,566</u>

**CARLTON COUNTY
CARLTON, MINNESOTA**

**EXHIBIT D-2
(Continued)**

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	F-EMPG-2017-CARLTONCO	\$ 23,894
Total Federal Awards			\$ 4,962,964

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

Totals by Cluster

Total expenditures for SNAP Cluster	\$ 408,549
Total expenditures for Highway Planning and Construction Cluster	2,888
Total expenditures for TANF Cluster	399,211
Total expenditures for CCDF Cluster	9,258
Total expenditures for Medicaid Cluster	1,892,119

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**CARLTON COUNTY
CARLTON, MINNESOTA**

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

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Carlton 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 Carlton County, it is not intended to and does not present the financial position or changes in net position of Carlton County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, 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. Carlton County has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.