

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**CARLTON COUNTY**  
**CARLTON, MINNESOTA**

YEAR ENDED DECEMBER 31, 2016

## **Description of the Office of the State Auditor**

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

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

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

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

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

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

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

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

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

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Year Ended December 31, 2016**



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

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

ORGANIZATION  
AS OF DECEMBER 31, 2016

			<u>Term Expires</u>
<b>Elected</b>			
<b>Commissioners</b>			
Board Member	Dick Brenner	District 1	January 2017
Board Chair	Marv Bodie	District 2	January 2019
Board Member	Thomas Proulx	District 3	January 2017
Board Member	Susan Zmyslony	District 4	January 2019
Board Member	Gary Peterson	District 5	January 2017
Attorney	Thomas H. Pertler		January 2019
Auditor/Treasurer	Paul Gassert		January 2019
Sheriff	Kelly Lake		January 2019
<b>Appointed</b>			
Assessor	Kyle Holmes		January 2017
Recorder	Kristine Basilici		January 2021
Registrar of Titles	Kristine Basilici		January 2021
Highway Engineer	Mike Tardy		March 2017
Veteran Services Officer	Duane Brownie		January 2017
Surveyor	William Hayden		December 2016
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, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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, 2016, 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, 2016, 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 December 20, 2017, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Carlton County's internal control over financial reporting and compliance.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

December 20, 2017

*/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, 2016  
(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, 2016. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

**FINANCIAL HIGHLIGHTS**

- Governmental activities' total net position is \$11,046,100, of which \$9,734,821 is restricted for specific purposes.
- Carlton County's governmental activities' net position decreased by \$119,778 for the year ended December 31, 2016.
- The net cost of governmental activities was \$29,664,741 for the current fiscal year. The net cost was funded by general revenues totaling \$29,544,963.
- Governmental funds' fund balances increased by \$6,728,866.
- 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 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 and liabilities--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)**

	2016	2015
Assets	\$ 46,029	\$ 45,475
Deferred Outflows of Resources		
Deferred pension outflows	\$ 14,855	\$ 2,351
Liabilities		
Long-term liabilities outstanding	\$ 43,637	\$ 30,147
Other liabilities	3,066	4,650
Total Liabilities	\$ 46,703	\$ 34,797
Deferred Inflows of Resources		
Deferred pension inflows	\$ 3,135	\$ 1,863
Net Position		
Restricted	\$ 9,735	\$ 12,082
Unrestricted	1,311	(916)
Total Net Position, as reported	\$ 11,046	\$ 11,166

**Table 2**  
**Changes in Net Position**  
**(in Thousands)**

	2016	2015
<b>Revenues</b>		
Program revenues		
Fees, charges, fines, and other	\$ 7,223	\$ 6,450
Operating grants and contributions	17,550	17,443
Capital grants and contributions	665	483
General revenues		
Property taxes	24,001	23,256
Other taxes	2,143	1,499
Grants and contributions	3,027	2,920
Other general revenues	374	243
Total Revenues	\$ 54,983	\$ 52,294
<b>Expenses</b>		
Program expenses		
General government	\$ 8,228	\$ 7,181
Public safety	9,820	8,300
Culture and recreation	506	485
Highways and streets	13,858	14,194
Human services	17,168	15,565
Health	1,559	1,811
Sanitation	1,545	1,418
Conservation of natural resources	1,336	1,302
Economic development	540	599
Interest	543	504
Total Expenses	\$ 55,103	\$ 51,359
Increase (Decrease) in Net Position	\$ (120)	\$ 935
Net Position, January 1	11,166	10,231
Net Position, December 31	\$ 11,046	\$ 11,166

## Governmental Activities

The cost of all governmental activities this year was \$55,102,793. However, as shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through County taxes was only \$24,001,086, because some of the cost was paid by those who directly benefited from the programs (\$7,222,939) or by other governments and organizations that subsidized certain programs with grants and contributions (\$18,215,113).

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	
	2016	2015	2016	2015
General government	\$ 8,229	\$ 7,181	\$ 6,374	\$ 5,373
Public safety	9,820	8,300	8,832	7,593
Highways and streets	13,858	14,194	5,711	6,338
Human services	17,168	15,565	6,834	6,137
Health	1,559	1,811	205	561
All others	4,469	4,308	1,709	981
Totals	<u>\$ 55,103</u>	<u>\$ 51,359</u>	<u>\$ 29,665</u>	<u>\$ 26,983</u>

## THE COUNTY'S FUNDS

As the County completed the year, its governmental funds reported a combined fund balance of \$39,947,671, which is more than last year's total of \$33,218,805. Included in this year's total fund balance is a surplus of \$19,602,174 in the County's General Fund. The overall increase in the governmental funds was primarily due to an increase in restricted funds in the Road and Bridge and the Human Services Special Revenue Funds.

### General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) for the County's General Fund were over the final budget by \$53,099. The largest variance was in culture and recreation.

On the other hand, resources available for appropriation exceeded the final budget for the County's General Fund by \$1,655,474. Collections were greater than expected in intergovernmental revenues, charges for services, and investment revenues 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 \$1,413,096, due mostly to both excess revenues and expenditures under budget.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2016, 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 \$11,330,000 outstanding in general obligation bonds backed by the County, versus \$12,230,000 last year.

The County did issue bonds in 2016. 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 2017 budget and tax levy:

- anticipated increase of \$350,000 for the implementation of the salary study,
- anticipated increase of \$190,000 for the Community Corrections Agreement,
- increase of \$350,000 for various new staff,
- increase of \$130,000 to fund the Restorative Justice Program, and
- increase of 4.59 percent for property tax levies in 2017.

## **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  
DECEMBER 31, 2016**

	<b>Primary Government Governmental Activities</b>
<b><u>Assets</u></b>	
Cash and pooled investments	\$ 30,964,155
Receivables	13,167,765
Inventories	789,780
Prepaid items	1,107,348
	<b>\$ 46,029,048</b>
<b><u>Deferred Outflows of Resources</u></b>	
Deferred pension outflows	<b>\$ 14,855,549</b>
<b><u>Liabilities</u></b>	
Accounts payable and other current liabilities	\$ 2,708,962
Accrued interest payable	92,567
Unearned revenue	264,646
Long-term liabilities	
Due within one year	740,000
Due in more than one year	14,228,956
Net pension liability	28,668,304
	<b>\$ 46,703,435</b>
<b><u>Deferred Inflows of Resources</u></b>	
Deferred pension inflows	<b>\$ 3,135,062</b>
<b><u>Net Position</u></b>	
Restricted for	
General government	\$ 676,685
Public safety	79,781
Highways and streets	2,367,028
Conservation of natural resources	356,534
Sanitation	23,750
Economic development	4,294,207
Debt service	1,936,836
Unrestricted	1,311,279
	<b>\$ 11,046,100</b>

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, 2016**

		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	
<b>Functions/Programs</b>						
<b>Governmental activities</b>						
General government	\$ 8,228,593	\$ 1,800,340	\$ 53,873	\$ -	\$ (6,374,380)	
Public safety	9,820,493	350,956	637,943	-	(8,831,594)	
Highways and streets	13,857,812	811,253	6,763,439	572,059	(5,711,061)	
Sanitation	1,544,955	1,027,089	28,114	-	(489,752)	
Human services	17,167,753	1,775,404	8,558,000	-	(6,834,349)	
Health	1,558,854	613,145	740,860	-	(204,849)	
Culture and recreation	505,607	-	-	-	(505,607)	
Conservation of natural resources	1,335,845	786,171	507,890	-	(41,784)	
Economic development	540,123	58,581	260,263	92,672	(128,607)	
Interest	542,758	-	-	-	(542,758)	
<b>Total Governmental Activities</b>	<b>\$ 55,102,793</b>	<b>\$ 7,222,939</b>	<b>\$ 17,550,382</b>	<b>\$ 664,731</b>	<b>\$ (29,664,741)</b>	
 <b>General Revenues</b>						
Property taxes					\$ 24,001,086	
Mortgage registry and deed tax					24,743	
Transportation sales tax					1,693,672	
Payments in lieu of tax					424,474	
Grants and contributions not restricted to specific programs					3,027,188	
Unrestricted investment earnings					236,832	
Miscellaneous					136,968	
<b>Total general revenues</b>					<b>\$ 29,544,963</b>	
<b>Change in net position</b>					<b>\$ (119,778)</b>	
<b>Net Position - Beginning</b>					<b>11,165,878</b>	
<b>Net Position - Ending</b>					<b>\$ 11,046,100</b>	

## **FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2016**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 15,849,526	\$ 2,099,331
Petty cash and change funds	2,000	-
Taxes receivable		
Delinquent	534,889	119,968
Special assessments receivable		
Delinquent	42,013	-
Accounts receivable	94,048	-
Accrued interest receivable	115,732	-
Due from other funds	95,828	13,016
Due from other governments	446,343	6,158,181
Inventories	-	789,780
Prepaid items	1,107,348	-
Loans receivable	2,727,222	-
	<b>\$ 21,014,949</b>	<b>\$ 9,180,276</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 191,897	\$ 135,068
Salaries payable	561,380	176,203
Contracts payable	-	118,565
Due to other funds	12,689	-
Due to other governments	94,831	175,643
Unearned revenue	52,629	171,826
	<b>\$ 913,426</b>	<b>\$ 777,305</b>
<b>Deferred Inflows of Resources</b>		
Unavailable revenue		
Taxes	\$ 499,349	\$ 107,420
Grants	-	1,416,069
Long-term receivables	-	-
	<b>\$ 499,349</b>	<b>\$ 1,523,489</b>

**EXHIBIT 3**

<u>Human Services</u>	<u>Forfeited Tax</u>	<u>Debt Service</u>	<u>Total</u>
\$ 10,970,513	\$ 107,243	\$ 1,931,586	\$ 30,958,199
3,956	-	-	5,956
310,362	-	51,655	1,016,874
-	-	-	42,013
7,484	866,691	-	968,223
-	-	-	115,732
-	-	-	108,844
1,689,974	3,203	-	8,297,701
-	-	-	789,780
-	-	-	1,107,348
-	-	-	2,727,222
<u>\$ 12,982,289</u>	<u>\$ 977,137</u>	<u>\$ 1,983,241</u>	<u>\$ 46,137,892</u>
\$ 595,381	\$ 1,188	\$ -	\$ 923,534
511,705	11,470	-	1,260,758
-	-	-	118,565
-	96,155	-	108,844
133,042	2,589	-	406,105
40,191	-	-	264,646
<u>\$ 1,280,319</u>	<u>\$ 111,402</u>	<u>\$ -</u>	<u>\$ 3,082,452</u>
\$ 280,317	\$ -	\$ 46,405	\$ 933,491
-	-	-	1,416,069
-	758,209	-	758,209
<u>\$ 280,317</u>	<u>\$ 758,209</u>	<u>\$ 46,405</u>	<u>\$ 3,107,769</u>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2016**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>		
<b>(Continued)</b>		
<b>Fund Balances</b>		
Nonspendable		
Inventories	\$ -	\$ 789,780
Prepaid items	1,107,348	-
Long-term loans	2,727,222	-
Missing heirs	25,765	-
Restricted		
Debt service	-	-
Law library	121,660	-
Recorder's technology equipment	233,163	-
Recorder's compliance	248,558	-
Prosecutorial purposes	47,539	-
Administering the carrying of weapons	72,743	-
Law enforcement	7,038	-
Timber development	356,534	-
Economic development	1,590,735	-
Highways and streets	-	441,395
Transportation sales tax	-	1,025,211
Assigned		
Highways and streets	-	4,623,096
Human services	-	-
Health	-	-
Forfeited tax	-	-
Unassigned	13,063,869	-
<b>Total Fund Balances</b>	<b>\$ 19,602,174</b>	<b>\$ 6,879,482</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 21,014,949</b>	<b>\$ 9,180,276</b>

**EXHIBIT 3**  
**(Continued)**

<u>Human Services</u>	<u>Forfeited Tax</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 789,780
-	-	-	1,107,348
-	-	-	2,727,222
-	-	-	25,765
-	-	1,936,836	1,936,836
-	-	-	121,660
-	-	-	233,163
-	-	-	248,558
-	-	-	47,539
-	-	-	72,743
-	-	-	7,038
-	-	-	356,534
-	-	-	1,590,735
-	-	-	441,395
-	-	-	1,025,211
-	-	-	4,623,096
8,098,055	-	-	8,098,055
3,323,598	-	-	3,323,598
-	107,526	-	107,526
-	-	-	13,063,869
<b>\$ 11,421,653</b>	<b>\$ 107,526</b>	<b>\$ 1,936,836</b>	<b>\$ 39,947,671</b>
<b>\$ 12,982,289</b>	<b>\$ 977,137</b>	<b>\$ 1,983,241</b>	<b>\$ 46,137,892</b>

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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, 2016**

<b>Fund balance - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>39,947,671</b>
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Amounts reported for governmental activities in the statement of net position are different because:

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		3,107,769
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Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.

Deferred pension outflows	\$ 14,855,549		
Deferred pension inflows	(3,135,062)		11,720,487

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	\$ (11,330,000)		
Bond premium	(297,485)		
Accrued interest payable	(92,567)		
Compensated absences	(3,341,471)		
Net pension liability	(28,668,304)		(43,729,827)

<b>Net Position of Governmental Activities (Exhibit 1)</b>	<b>\$</b>	<b><u>11,046,100</u></b>
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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, 2016**

	<b>General</b>	<b>Road and Bridge</b>
<b>Revenues</b>		
Taxes	\$ 12,784,696	\$ 4,509,742
Special assessments	548,703	-
Licenses and permits	87,901	-
Intergovernmental	3,892,152	12,354,295
Charges for services	2,711,915	483,923
Fines and forfeits	54,392	-
Gifts and contributions	76,389	-
Investment earnings	233,451	3,381
Miscellaneous	575,359	327,330
	<b>\$ 20,964,958</b>	<b>\$ 17,678,671</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 7,724,305	\$ -
Public safety	8,324,899	-
Highways and streets	-	13,734,940
Sanitation	1,534,046	-
Human services	-	-
Health	-	-
Culture and recreation	505,607	-
Conservation of natural resources	924,109	-
Economic development	540,123	-
<b>Debt service</b>		
Principal	-	-
Interest	-	-
Bond issuance costs	-	-
Administrative charges	-	-
	<b>\$ 19,553,089</b>	<b>\$ 13,734,940</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 1,411,869</b>	<b>\$ 3,943,731</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ 12,001	\$ -
Transfers out	(10,774)	-
Refunding bonds issued	-	-
Premium on refunding bonds issued	-	-
	<b>\$ 1,227</b>	<b>\$ -</b>
<b>Net Change in Fund Balance</b>	<b>\$ 1,413,096</b>	<b>\$ 3,943,731</b>
<b>Fund Balance - January 1</b>	<b>18,189,078</b>	<b>2,801,372</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>134,379</b>
<b>Fund Balance - December 31</b>	<b>\$ 19,602,174</b>	<b>\$ 6,879,482</b>



**EXHIBIT 5**

<b>Human Services</b>	<b>Forfeited Tax</b>	<b>Debt Service</b>	<b>Total</b>
\$ 7,321,699	\$ -	\$ 1,097,014	\$ 25,713,151
-	-	-	548,703
-	-	-	87,901
9,809,218	26,833	199,836	26,282,334
1,796,549	-	-	4,992,387
-	-	-	54,392
39,553	-	-	115,942
-	-	-	236,832
302,100	359,539	-	1,564,328
<b>\$ 19,269,119</b>	<b>\$ 386,372</b>	<b>\$ 1,296,850</b>	<b>\$ 59,595,970</b>
\$ -	\$ -	\$ -	\$ 7,724,305
-	-	-	8,324,899
-	-	-	13,734,940
-	-	-	1,534,046
16,616,983	-	-	16,616,983
1,467,245	-	-	1,467,245
-	-	-	505,607
-	404,089	-	1,328,198
-	-	-	540,123
-	-	9,520,000	9,520,000
-	-	493,340	493,340
-	-	127,582	127,582
-	-	1,700	1,700
<b>\$ 18,084,228</b>	<b>\$ 404,089</b>	<b>\$ 10,142,622</b>	<b>\$ 61,918,968</b>
<b>\$ 1,184,891</b>	<b>\$ (17,717)</b>	<b>\$ (8,845,772)</b>	<b>\$ (2,322,998)</b>
\$ 10,774	\$ -	\$ -	\$ 22,775
(6,173)	(5,828)	-	(22,775)
-	-	8,620,000	8,620,000
-	-	297,485	297,485
<b>\$ 4,601</b>	<b>\$ (5,828)</b>	<b>\$ 8,917,485</b>	<b>\$ 8,917,485</b>
\$ 1,189,492	\$ (23,545)	\$ 71,713	\$ 6,594,487
10,232,161	131,071	1,865,123	33,218,805
-	-	-	134,379
<b>\$ 11,421,653</b>	<b>\$ 107,526</b>	<b>\$ 1,936,836</b>	<b>\$ 39,947,671</b>

**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, 2016**

**Net change in fund balance - total governmental funds (Exhibit 5) \$ 6,594,487**

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	\$ 3,107,769	
Unavailable revenue - January 1	<u>(7,813,652)</u>	(4,705,883)

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.

Refunding bonds issued	\$ (8,620,000)	
Bond premium	(297,485)	
Principal repayments		
General obligation bonds	<u>9,520,000</u>	602,515

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	\$ 114,944	
Change in compensated absences	(115,438)	
Amortization of bond discounts	(35,080)	
Change in inventories	134,379	
Change in net pension liability	(13,942,354)	
Change in deferred pension outflows	12,504,409	
Change in deferred pension inflows	<u>(1,271,757)</u>	<u>(2,610,897)</u>

**Change in Net Position of Governmental Activities (Exhibit 2) \$ (119,778)**

**FIDUCIARY FUNDS**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

***EXHIBIT 7***

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2016**

	<u>Agency Funds</u>
<b><u>Assets</u></b>	
Cash and pooled investments	\$ <u>2,022,416</u>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 79,635
Due to other governments	<u>1,942,781</u>
<b>Total Liabilities</b>	<b>\$ <u>2,022,416</u></b>

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2016. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

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 6.D.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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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 the primary government.

These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support. Carlton County has no business-type activities.

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.

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**

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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**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. 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 general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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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, 2016. 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 2016 were \$236,832.

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.

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

2. Receivables and Payables (Continued)

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 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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

4. Capital Assets (Continued)

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 Road and Bridge, Public Health and Human Services, and Forfeited Tax Sale 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.

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. Currently, the County has one item, deferred

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

7. Deferred Outflows/Inflows of Resources (Continued)

pension outflows, that qualifies for reporting in this category. These outflows arise only under the accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date and also the differences between projected and actual earnings on pension plan investments and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of 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 two types of items, unavailable revenue and deferred pension inflows, that qualify for reporting in this category. 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. This amount is deferred and recognized as an inflow of resources in the period that the amounts 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 and pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

8. Pension Plan

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

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. Bond issuance costs are recognized as an expense in the period incurred.

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 generally accepted accounting principles.

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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances

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

- Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items 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 actions (resolution) it employed to previously commit these amounts.
- 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 and 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  
CARLTON, MINNESOTA**

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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)

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

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, deferred inflows of resources; and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations

For the year ended December 31, 2016, expenditures exceeded appropriations in the Debt Service Fund:

	<u>Final Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Debt Service Fund	\$ 1,279,587	\$ 10,142,622	\$ 8,863,035

**CARLTON COUNTY  
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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 30,964,155
Statement of fiduciary net position	
Cash and pooled investments	<u>2,022,416</u>
Total Cash and Investments	<u>\$ 32,986,571</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, 2016, the County's deposits were not exposed to custodial credit risk.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. 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, 2016, 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**

3. 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, 2016, 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%	07/28/2017	\$ 249,874
Federal Home Loan Mortgage Corporation Note	Aaa/AA+	Moody's/S&P	<5%	02/01/2028	2,690
Total Federal Home Loan Mortgage Corporation Notes					\$ 252,564
Federal National Mortgage Association	Aaa/AA+	Moody's/S&P	<5%	10/01/2025	\$ 1,430
Negotiable certificates of deposit					
Ally Bank	N/A	N/A	<5%	08/20/2018	\$ 248,915
American Express Centurion Bank	N/A	N/A	<5%	10/16/2017	245,520
Bank Baroda New York	N/A	N/A	<5%	03/20/2017	245,072
Bank of America NA	N/A	N/A	<5%	06/02/2017	245,029
Bank of China	N/A	N/A	<5%	01/20/2017	245,043
Bank of India NY	N/A	N/A	<5%	04/05/2017	244,980
BankFinancial FSB	N/A	N/A	<5%	01/16/2018	244,633
BBCN Bank	N/A	N/A	<5%	03/23/2017	245,018
Beal Bank SSB	N/A	N/A	<5%	03/01/2017	244,992
Beal Bank USA	N/A	N/A	<5%	07/05/2017	244,982
BMW Bank	N/A	N/A	<5%	03/17/2017	245,066
Capital Bank	N/A	N/A	<5%	10/30/2017	244,642
Capital One Bank USA NA Glen Allen	N/A	N/A	<5%	06/26/2017	245,238
Capital One NA, Mclean	N/A	N/A	<5%	02/06/2017	245,083
Cardinal Bank	N/A	N/A	<5%	11/27/2017	244,823
CIT Bank	N/A	N/A	<5%	08/17/2017	244,870
Community Financial Services Bank	N/A	N/A	<5%	03/08/2018	244,451
Community First Bank	N/A	N/A	<5%	12/16/2019	244,963
Compass Bank	N/A	N/A	<5%	07/31/2017	245,712
Customers Bank	N/A	N/A	<5%	09/29/2017	245,195
Discover Bank	N/A	N/A	<5%	12/14/2018	245,504
Eagle Bank	N/A	N/A	<5%	12/29/2017	245,630
Enerbank USA	N/A	N/A	<5%	02/17/2017	245,061
Enterprise Bank	N/A	N/A	<5%	03/17/2017	245,003
First Bank	N/A	N/A	<5%	09/28/2018	243,555
First Foundation Bank	N/A	N/A	<5%	03/15/2017	244,999
First Mid-Illinois Bank & Trust	N/A	N/A	<5%	01/02/2018	105,839
First National Bank Omaha	N/A	N/A	<5%	02/16/2018	244,338
First Niagara Bank	N/A	N/A	<5%	01/27/2017	245,062
First State Community Bank	N/A	N/A	<5%	11/27/2017	244,801
Georgia Bank & Trust Company	N/A	N/A	<5%	01/09/2017	245,001
Goldman Sachs Bank USA	N/A	N/A	<5%	09/11/2017	245,479
Green Bank NA	N/A	N/A	<5%	01/30/2017	245,057

**CARLTON COUNTY  
CARLTON, MINNESOTA**

3. 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)					
Homestreet Bank	N/A	N/A	<5%	02/28/2017	245,050
IberiaBank	N/A	N/A	<5%	03/15/2017	244,999
Investors Community Bank	N/A	N/A	<5%	05/09/2017	245,051
Investors Savings Bank	N/A	N/A	<5%	06/28/2017	245,179
Ion Bank	N/A	N/A	<5%	03/16/2017	245,074
Israel Discount Bank of NY	N/A	N/A	<5%	04/20/2018	245,001
JP Morgan Chase Bank	N/A	N/A	<5%	09/30/2019	242,162
Katahdin Bankshares Corp	N/A	N/A	<5%	02/24/2017	245,087
Lubbock National Bank	N/A	N/A	<5%	12/22/2017	244,745
Marlin Business Bank	N/A	N/A	<5%	08/28/2017	244,968
Medallion Bank	N/A	N/A	<5%	01/23/2017	245,021
Mercantil Commerce Bank	N/A	N/A	<5%	12/23/2019	246,000
Merrick Bank	N/A	N/A	<5%	05/10/2017	245,059
Mizuho Bank	N/A	N/A	<5%	01/20/2017	245,016
NBC Oklahoma	N/A	N/A	<5%	12/22/2017	245,123
Paragon Commercial Bank	N/A	N/A	<5%	08/21/2017	244,986
Parkway Bank & Trust	N/A	N/A	<5%	04/21/2017	245,073
Peoples Bank Bedford County	N/A	N/A	<5%	09/29/2017	244,869
Sallie Mae Bank	N/A	N/A	<5%	12/11/2017	245,431
Stearns Bank	N/A	N/A	<5%	03/29/2018	244,549
Synovus Bank	N/A	N/A	<5%	02/23/2017	245,103
TCF National Bank	N/A	N/A	<5%	06/14/2018	244,547
TIAA-CREF Trust Company	N/A	N/A	<5%	02/27/2017	245,016
Transportation Alliance Bank	N/A	N/A	<5%	10/02/2017	244,859
Triumph Bank	N/A	N/A	<5%	02/17/2017	245,039
United Bank Vernon	N/A	N/A	<5%	02/16/2017	244,999
Washington Trust Company	N/A	N/A	<5%	11/17/2017	244,535
Wells Fargo Bank	N/A	N/A	<5%	02/26/2018	245,610
Wex Bank	N/A	N/A	<5%	07/07/2017	244,990
Whitney Bank	N/A	N/A	<5%	04/20/2017	245,073
ZB NA	N/A	N/A	<5%	03/01/2017	244,925
Total negotiable certificates of deposit					\$ 15,542,695
Investment pools/mutual funds					
MAGIC Fund	N/A	N/A	33.9%	N/A	\$ 6,964,483
Total investments					\$ 22,761,172
Deposits and non-negotiable certificates of deposit					
Petty cash					10,219,443
					5,956
Total Cash and Investments					\$ 32,986,571

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

3. 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, 2016, the County had the following recurring fair value measurements.

	December 31, 2016	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	\$ 252,564	\$ -	\$ 252,564	\$ -
Federal National Mortgage Association	1,430	-	1,430	-
Negotiable certificates of deposit	15,542,695	-	15,542,695	-
	<u>\$ 15,796,689</u>	<u>\$ -</u>	<u>\$ 15,796,689</u>	<u>\$ -</u>
Total Investments by Fair Value Hierarchy				
Investments measured at net asset value (NAV)				
MAGIC Portfolio	\$ 1,964,483			
MAGIC Term	5,000,000			
	<u>\$ 6,964,483</u>			
Total investments measured at the NAV				
	<u>\$ 6,964,483</u>			
Total Investments	<u>\$ 22,761,172</u>			

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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3. 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**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

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

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 1,016,874	\$ -
Special assessments	42,013	-
Accounts	968,223	-
Accrued interest	115,732	-
Due from other governments	8,297,701	-
Loans receivable	2,727,222	2,525,701
Total Governmental Activities	\$ 13,167,765	\$ 2,525,701

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 52 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, 2016, is as follows:

Receivable Fund	Payable Fund	Amount	Purpose
General	Forfeited Tax	\$ 95,828	Forfeited tax apportionment and payment of fees
Road and Bridge	General	\$ 12,689	Reimburse supplies and services
	Forfeited Tax	327	Reimburse supplies and services
Total due to Road and Bridge Fund		\$ 13,016	
Total Due To/From Other Funds		\$ 108,844	

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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3. Detailed Notes on All Funds

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2016, consisted of the following:

Transfers to Human Services Fund from General Fund	\$ 10,774	Collection of Title IV-D funds
Transfers to General Fund from Human Services Fund	6,173	Restorative Justice funds
Transfers to General Fund from Forfeited Tax Fund	<u>5,828</u>	Forfeited tax apportionment
Total Interfund Transfers	<u>\$ 22,775</u>	

C. Liabilities

1. Payables

Payables at December 31, 2016, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 923,534
Salaries	1,260,758
Contracts	118,565
Due to other governments	<u>406,105</u>
Total Payables	<u>\$ 2,708,962</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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Other Postemployment Benefits - Retirees (Continued)

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 2016, the County expended \$631,033 for these benefits.

3. Long-Term Debt

Bonds Payable

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

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2016</u>
2012A G.O. Capital Improvement Refunding Bonds	2021	\$250,000 - \$560,000	0.40 - 1.50	\$ 4,010,000	\$ 2,710,000
2016A G.O. Capital Improvement Refunding Bonds	2030	\$215,000 - \$900,000	2.00	<u>8,620,000</u>	<u>8,620,000</u>
Total				<u>\$ 12,630,000</u>	\$ 11,330,000
Plus: unamortized premium					<u>297,485</u>
Total General Obligation Bonds, Net					<u>\$ 11,627,485</u>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

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

Governmental Activities

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2017	\$ 740,000	\$ 206,645
2018	810,000	189,255
2019	815,000	178,405
2020	840,000	166,192
2021	855,000	152,550
2022 - 2026	3,770,000	554,200
2027 - 2030	3,500,000	141,600
Total	<u>\$ 11,330,000</u>	<u>\$ 1,588,847</u>

Debt Refunding

In 2016, Carlton County issued \$8,620,000 General Obligation Capital Improvement Refunding Bonds, Series 2016. The bonds were issued for the purpose of effecting a current refunding of County Bond Series 2010A and 2010B, and paying the costs associated with the issuance of the bonds. The bonds are general obligations of the County, for which its full faith, credit, and taxing powers are pledged, with principal payments due annually on February 1, 2017 through 2030. The net present value savings to the County on the refunding was \$1,084,820.

5. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 12,230,000	\$ 8,620,000	\$ 9,520,000	\$ 11,330,000	\$ 740,000
Bond discount	(35,080)	-	(35,080)	-	-
Bond premium	-	297,485	-	297,485	-
Compensated absences	3,226,033	115,438	-	3,341,471	-
Governmental Activities					
Long-Term Liabilities	<u>\$ 15,420,953</u>	<u>\$ 9,032,923</u>	<u>\$ 9,484,920</u>	<u>\$ 14,968,956</u>	<u>\$ 740,000</u>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. 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.

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

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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

2. Benefits Provided

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

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

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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

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 2016. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2016. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2016.

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

General Employees Retirement 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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

3. Contributions (Continued)

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

General Employees Retirement Plan	\$	1,151,435
Public Employees Police and Fire Plan		287,427
Public Employees Correctional Plan		78,221

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

4. Pension Costs

General Employees Retirement Plan

At December 31, 2016, the County reported a liability of \$19,559,886 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.2409 percent. It was 0.2434 percent measured as of June 30, 2015. The County recognized pension expense of \$2,550,048 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized \$76,188 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.



**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

County's proportionate share of the net pension liability	\$ 19,559,886
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>255,516</u>
Total	<u>\$ 19,815,402</u>

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 1,593,306
Changes in actuarial assumptions	3,829,843	-
Difference between projected and actual investment earnings	3,721,750	-
Changes in proportion	-	677,313
Contributions paid to PERA subsequent to the measurement date	<u>583,782</u>	<u>-</u>
Total	<u>\$ 8,135,375</u>	<u>\$ 2,270,619</u>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

The \$583,782 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2017	\$ 1,357,458
2018	1,357,458
2019	1,859,520
2020	706,538

Public Employees Police and Fire Plan

At December 31, 2016, the County reported a liability of \$7,464,504 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.1860 percent. It was 0.1800 percent measured as of June 30, 2015. The County recognized pension expense of \$1,305,052 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

The County also recognized \$16,740 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

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	\$ -	\$ 847,475
Changes in actuarial assumptions	4,108,043	-
Difference between projected and actual investment earnings	1,130,226	-
Changes in proportion	64,012	-
Contributions paid to PERA subsequent to the measurement date	143,929	-
Total	\$ 5,446,210	\$ 847,475

The \$143,929 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	\$ 956,838
2018	956,838
2019	956,838
2020	867,751
2021	716,541

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Plan

At December 31, 2016, the County reported a liability of \$1,643,914 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.4500 percent. It was 0.4300 percent measured as of June 30, 2015. The County recognized pension expense of \$464,612 for its proportionate share of the Public Employees Correctional Plan's pension expense.

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	\$ 1,287	\$ 16,968
Changes in actuarial assumptions	1,047,371	-
Difference between projected and actual investment earnings	182,766	-
Changes in proportion	2,319	-
Contributions paid to PERA subsequent to the measurement date	40,221	-
Total	\$ 1,273,964	\$ 16,968

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Plan (Continued)

The \$40,221 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2017	\$ 390,999
2018	390,999
2019	399,483
2020	35,294

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2016, was \$4,319,712.

5. Actuarial Assumptions

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

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2008 through 2015. The experience study for the Public Employees Police and Fire Plan was for the period 2004 through 2009. The experience study for the Public Employees Correctional Plan was for the period 2006 through 2011.

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

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In the Public Employees Police and Fire Plan and the Public Employees Correctional Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056, and June 30, 2058, respectively. Beginning in fiscal years ended June 30, 2057, for the Police and Fire Plan and June 30, 2059, for the Public Employees Correctional Plan, when projected benefit payments exceed the Plans' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60 percent for the Public Employees Police and Fire Plan and 5.31 percent for the Public Employees Correctional Plan was determined that produced approximately the same present value of the projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits through the point of asset depletion and 2.85 percent thereafter.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Plan

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

Public Employees Police and Fire Plan

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



**CARLTON COUNTY  
CARLTON, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions (Continued)

Public Employees Correctional Plan

- 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.

8. Pension Liability Sensitivity

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

	Proportionate Share of the					
	General Employees Retirement Plan		Public Employees Police and Fire Plan		Public Employees Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 27,780,834	4.60%	\$ 10,449,314	4.31%	\$ 2,475,225
Current	7.50	19,559,886	5.60	7,464,504	5.31	1,643,914
1% Increase	8.50	12,788,061	6.60	5,025,687	6.31	994,914

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](http://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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. Pension Plans (Continued)

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 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, 2016, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 5,175	\$ 5,175
Percentage of covered payroll	5%	5%

5. 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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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5. Postemployment Health Care

A. MSRS Health Care Savings Plan (Continued)

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.

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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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6. 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 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 2016 and 2017. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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

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.

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 \$6,000,000 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, 2016, the outstanding principal balance was \$5,580,000.

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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Arrowhead Regional Corrections (Continued)

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.

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 \$1,607,450 in funding in 2016.

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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Carlton County Children and Family Service Collaborative (Continued)

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, 2016, is accounted for in an agency fund of Carlton County.

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 2016.

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

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CARLTON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

defined as a service delivery area, and the Northeast Minnesota Office of Job Training is designated as the grant recipient and administrator for the service delivery area. The County is not a funding mechanism for this organization.

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

Separate financial information can be obtained from:

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

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  
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6. 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 \$16,345 in funding in 2016.

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.

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CARLTON, MINNESOTA**

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6. 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 2016.

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.

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6. 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.

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**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, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 12,849,631	\$ 12,849,631	\$ 12,784,696	\$ (64,935)
Special assessments	575,000	575,000	548,703	(26,297)
Licenses and permits	73,575	73,575	87,901	14,326
Intergovernmental	2,955,096	2,955,096	3,892,152	937,056
Charges for services	1,976,451	1,976,451	2,711,915	735,464
Fines and forfeits	42,000	42,000	54,392	12,392
Gifts and contributions	5,250	5,250	76,389	71,139
Investment income	71,200	71,200	233,451	162,251
Miscellaneous	761,281	761,281	575,359	(185,922)
<b>Total Revenues</b>	<b>\$ 19,309,484</b>	<b>\$ 19,309,484</b>	<b>\$ 20,964,958</b>	<b>\$ 1,655,474</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 515,090	\$ 515,090	\$ 343,182	\$ 171,908
Restorative justice	-	-	80,702	(80,702)
Courts	90,754	90,754	146,613	(55,859)
County auditor	1,173,919	1,173,919	1,090,335	83,584
License bureau	381,148	381,148	370,563	10,585
County assessor	760,215	760,215	722,490	37,725
Personnel	443,124	443,124	441,354	1,770
Data processing	988,577	988,577	937,467	51,110
Attorney	1,106,856	1,106,856	1,095,898	10,958
Law library	42,000	42,000	33,070	8,930
Recorder	531,971	531,971	569,769	(37,798)
Surveyor	15,000	15,000	15,000	-
Planning and zoning	459,894	459,894	454,241	5,653
Maintenance	1,032,902	1,032,902	1,038,214	(5,312)
Veterans service officer	304,918	304,918	296,081	8,837
Community and family services	-	-	89,326	(89,326)
<b>Total general government</b>	<b>\$ 7,846,368</b>	<b>\$ 7,846,368</b>	<b>\$ 7,724,305</b>	<b>\$ 122,063</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 3,080,966	\$ 3,080,966	\$ 3,186,080	\$ (105,114)
Snowmobile safety	4,783	4,783	2,268	2,515
Boat and water safety	6,977	6,977	6,954	23
Ambulance	80,350	80,350	80,350	-
Animal control	40,000	40,000	40,000	-
Coroner	101,000	101,000	87,856	13,144
E-911	1,035,607	1,035,607	1,085,611	(50,004)
County jail	2,078,929	2,078,929	2,072,232	6,697
Community corrections	1,603,989	1,603,989	1,603,581	408
Court services	120,413	120,413	104,571	15,842
Civil defense	57,082	57,082	55,396	1,686
<b>Total public safety</b>	<b>\$ 8,210,096</b>	<b>\$ 8,210,096</b>	<b>\$ 8,324,899</b>	<b>\$ (114,803)</b>
<b>Sanitation</b>				
Solid waste	\$ 1,210,954	\$ 1,210,954	\$ 1,311,737	\$ (100,783)
Recycling	212,036	212,036	222,309	(10,273)
<b>Total sanitation</b>	<b>\$ 1,422,990</b>	<b>\$ 1,422,990</b>	<b>\$ 1,534,046</b>	<b>\$ (111,056)</b>
<b>Culture and recreation</b>				
Historical society	\$ 45,000	\$ 45,000	\$ 45,000	\$ -
County fair	37,750	37,750	37,750	-
Parks	93,764	93,764	273,367	(179,603)
Regional library	149,490	149,490	149,490	-
<b>Total culture and recreation</b>	<b>\$ 326,004</b>	<b>\$ 326,004</b>	<b>\$ 505,607</b>	<b>\$ (179,603)</b>
<b>Conservation of natural resources</b>				
County extension	\$ 497,906	\$ 497,906	\$ 481,720	\$ 16,186
Soil and water conservation	134,715	134,715	134,715	-
Weed inspector	7,431	7,431	7,133	298
Timber development	11,000	11,000	60,761	(49,761)
Resource development	45,200	45,200	85,685	(40,485)
Water planning	156,718	156,718	151,783	4,935
Other conservation	7,600	7,600	2,312	5,288
<b>Total conservation of natural resources</b>	<b>\$ 860,570</b>	<b>\$ 860,570</b>	<b>\$ 924,109</b>	<b>\$ (63,539)</b>

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



**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Economic development</b>				
Airport commission	\$ 160,877	\$ 160,877	\$ 156,034	\$ 4,843
Rail authority	300	300	23,284	(22,984)
Arrowhead Regional Development	51,319	51,319	-	51,319
Iron Range Resources and Rehabilitation Board	621,466	621,466	360,805	260,661
<b>Total economic development</b>	<u>\$ 833,962</u>	<u>\$ 833,962</u>	<u>\$ 540,123</u>	<u>\$ 293,839</u>
<b>Total Expenditures</b>	<u>\$ 19,499,990</u>	<u>\$ 19,499,990</u>	<u>\$ 19,553,089</u>	<u>\$ (53,099)</u>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<u>\$ (190,506)</u>	<u>\$ (190,506)</u>	<u>\$ 1,411,869</u>	<u>\$ 1,602,375</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 241,707	\$ 241,707	\$ 12,001	\$ (229,706)
Transfers out	102,520	102,520	(10,774)	(113,294)
<b>Total Other Financing Sources   (Uses)</b>	<u>\$ 344,227</u>	<u>\$ 344,227</u>	<u>\$ 1,227</u>	<u>\$ (343,000)</u>
<b>Net Change in Fund Balance</b>	\$ 153,721	\$ 153,721	\$ 1,413,096	\$ 1,259,375
<b>Fund Balance - January 1</b>	<u>18,189,078</u>	<u>18,189,078</u>	<u>18,189,078</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u>\$ 18,342,799</u>	<u>\$ 18,342,799</u>	<u>\$ 19,602,174</u>	<u>\$ 1,259,375</u>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT A-2**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 5,190,760	\$ 5,190,760	\$ 4,509,742	\$ (681,018)
Intergovernmental	8,746,678	8,746,678	12,354,295	3,607,617
Charges for services	512,100	512,100	483,923	(28,177)
Investment income	-	-	3,381	3,381
Miscellaneous	305,400	305,400	327,330	21,930
<b>Total Revenues</b>	<b>\$ 14,754,938</b>	<b>\$ 14,754,938</b>	<b>\$ 17,678,671</b>	<b>\$ 2,923,733</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 825,521	\$ 825,521	\$ 748,220	\$ 77,301
Maintenance	3,519,273	3,519,273	3,590,778	(71,505)
Construction	8,661,561	8,661,561	7,923,979	737,582
Equipment maintenance and shop	1,748,583	1,748,583	1,471,963	276,620
<b>Total Expenditures</b>	<b>\$ 14,754,938</b>	<b>\$ 14,754,938</b>	<b>\$ 13,734,940</b>	<b>\$ 1,019,998</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,943,731</b>	<b>\$ 3,943,731</b>
<b>Fund Balance - January 1</b>	<b>2,801,372</b>	<b>2,801,372</b>	<b>2,801,372</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>134,379</b>	<b>134,379</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,801,372</b>	<b>\$ 2,801,372</b>	<b>\$ 6,879,482</b>	<b>\$ 4,078,110</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*EXHIBIT A-3*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 7,528,977	\$ 7,528,977	\$ 7,321,699	\$ (207,278)
Intergovernmental	8,683,887	8,683,887	9,809,218	1,125,331
Charges for services	1,452,006	1,452,006	1,796,549	344,543
Gifts and contributions	36,160	36,160	39,553	3,393
Miscellaneous	272,900	272,900	302,100	29,200
<b>Total Revenues</b>	<b>\$ 17,973,930</b>	<b>\$ 17,973,930</b>	<b>\$ 19,269,119</b>	<b>\$ 1,295,189</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 5,005,691	\$ 5,005,691	\$ 4,761,489	\$ 244,202
Social services	11,633,170	11,633,170	11,855,494	(222,324)
<b>Total human services</b>	<b>\$ 16,638,861</b>	<b>\$ 16,638,861</b>	<b>\$ 16,616,983</b>	<b>\$ 21,878</b>
<b>Health</b>	<b>1,683,303</b>	<b>1,683,303</b>	<b>1,467,245</b>	<b>216,058</b>
<b>Total Expenditures</b>	<b>\$ 18,322,164</b>	<b>\$ 18,322,164</b>	<b>\$ 18,084,228</b>	<b>\$ 237,936</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (348,234)</b>	<b>\$ (348,234)</b>	<b>\$ 1,184,891</b>	<b>\$ 1,533,125</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 12,000	\$ 12,000	\$ 10,774	\$ (1,226)
Transfers out	-	-	(6,173)	(6,173)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 12,000</b>	<b>\$ 12,000</b>	<b>\$ 4,601</b>	<b>\$ (7,399)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (336,234)</b>	<b>\$ (336,234)</b>	<b>\$ 1,189,492</b>	<b>\$ 1,525,726</b>
<b>Fund Balance - January 1</b>	<b>10,232,161</b>	<b>10,232,161</b>	<b>10,232,161</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 9,895,927</b>	<b>\$ 9,895,927</b>	<b>\$ 11,421,653</b>	<b>\$ 1,525,726</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*EXHIBIT A-4*

**BUDGETARY COMPARISON SCHEDULE  
FORFEITED TAX SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ -	\$ -	\$ 26,833	\$ 26,833
Miscellaneous	409,806	409,806	359,539	(50,267)
<b>Total Revenues</b>	<b>\$ 409,806</b>	<b>\$ 409,806</b>	<b>\$ 386,372</b>	<b>\$ (23,434)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Land use	409,806	409,806	404,089	5,717
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (17,717)</b>	<b>\$ (17,717)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(5,828)	(5,828)
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (23,545)</b>	<b>\$ (23,545)</b>
<b>Fund Balance - January 1</b>	<b>131,071</b>	<b>131,071</b>	<b>131,071</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 131,071</b>	<b>\$ 131,071</b>	<b>\$ 107,526</b>	<b>\$ (23,545)</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*EXHIBIT A-5*

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

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>State's Proportionate Share of the Net Pension Liability Associated with Carlton County (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)</b>	<b>Covered Payroll (c)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
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, 2016**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b - a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
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. Carlton 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, 2016**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>Covered Payroll (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2016	0.1860%	\$ 7,464,504	\$ 1,791,093	416.76%	63.88%
2015	0.1800	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, 2016**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b - a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
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. Carlton 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, 2016**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>Covered Payroll (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2016	0.4500%	\$ 1,643,914	\$ 845,589	194.41%	58.16%
2015	0.4300	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, 2016**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b - a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
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. Carlton County's year-end is December 31.



**CARLTON COUNTY  
CARLTON, MINNESOTA**

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

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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, 2016, expenditures exceeded appropriations in the following fund:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund	\$ 19,499,990	\$ 19,553,089	\$ 53,099

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

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

General Employees Retirement Plan

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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

General Employees Retirement Plan (Continued)

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

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

Public Employees Correctional Plan

- 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.

## **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, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,119,587	\$ 1,119,587	\$ 1,097,014	\$ (22,573)
Intergovernmental	160,000	160,000	199,836	39,836
<b>Total Revenues</b>	<b>\$ 1,279,587</b>	<b>\$ 1,279,587</b>	<b>\$ 1,296,850</b>	<b>\$ 17,263</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 720,000	\$ 720,000	\$ 9,520,000	\$ (8,800,000)
Interest	559,587	559,587	493,340	66,247
Administrative charges	-	-	1,700	(1,700)
Bond issuance costs	-	-	127,582	(127,582)
<b>Total Expenditures</b>	<b>\$ 1,279,587</b>	<b>\$ 1,279,587</b>	<b>\$ 10,142,622</b>	<b>\$ (8,863,035)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (8,845,772)</b>	<b>\$ (8,845,772)</b>
<b>Other Financing Sources (Uses)</b>				
Refunding bonds issued	\$ -	\$ -	\$ 8,620,000	\$ 8,620,000
Premium on refunding bonds issued	-	-	297,485	297,485
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,917,485</b>	<b>\$ 8,917,485</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 71,713</b>	<b>\$ 71,713</b>
<b>Fund Balance - January 1</b>	<b>1,865,123</b>	<b>1,865,123</b>	<b>1,865,123</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,865,123</b>	<b>\$ 1,865,123</b>	<b>\$ 1,936,836</b>	<b>\$ 71,713</b>

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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, 2016**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>MOTOR VEHICLE REGISTRATION</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 4,863,428	4,863,428	\$ -
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 4,863,428	\$ 4,863,428	\$ -
 <b><u>EMPLOYEE FLEXIBLE BENEFITS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 81,432	\$ 131,776	\$ 133,573	\$ 79,635
<b><u>Liabilities</u></b>				
Accounts payable	\$ 81,432	\$ 131,776	\$ 133,573	\$ 79,635
 <b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 134,645	\$ 5,741,947	\$ 5,758,315	\$ 118,277
<b><u>Liabilities</u></b>				
Due to other governments	\$ 134,645	\$ 5,741,947	\$ 5,758,315	\$ 118,277

**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, 2016**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>SCHOOL DISTRICTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 191,795</u>	<u>\$ 13,348,819</u>	<u>\$ 13,304,751</u>	<u>\$ 235,863</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ 191,795</u>	<u>\$ 13,348,819</u>	<u>\$ 13,304,751</u>	<u>\$ 235,863</u>
 <b><u>TOWNS AND CITIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 168,421</u>	<u>\$ 11,215,449</u>	<u>\$ 11,205,494</u>	<u>\$ 178,376</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ 168,421</u>	<u>\$ 11,215,449</u>	<u>\$ 11,205,494</u>	<u>\$ 178,376</u>
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ -</u>	<u>\$ 54,643,636</u>	<u>\$ 54,643,636</u>	<u>\$ -</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ -</u>	<u>\$ 54,643,636</u>	<u>\$ 54,643,636</u>	<u>\$ -</u>

**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, 2016**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>NORTHEASTERN WASTE ADVISORY COUNCIL</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 1,195	\$ 1	\$ 243	\$ 953
<b><u>Liabilities</u></b>				
Due to other governments	\$ 1,195	\$ 1	\$ 243	\$ 953
 <b><u>REFUNDING</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 1,105,292	\$ 327,180	\$ 361,314	\$ 1,071,158
<b><u>Liabilities</u></b>				
Due to other governments	\$ 1,105,292	\$ 327,180	\$ 361,314	\$ 1,071,158
 <b><u>COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 647,815	\$ 356,309	\$ 665,970	\$ 338,154
<b><u>Liabilities</u></b>				
Accounts payable	\$ 672	\$ -	\$ 672	\$ -
Salaries payable	2,199	-	2,199	-
Due to other governments	644,944	338,154	644,944	338,154
<b>Total Liabilities</b>	<b>\$ 647,815</b>	<b>\$ 338,154</b>	<b>\$ 647,815</b>	<b>\$ 338,154</b>

**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, 2016**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 2,330,595	\$ 90,628,545	\$ 90,936,724	\$ 2,022,416
<b><u>Liabilities</u></b>				
Accounts payable	\$ 82,104	\$ 4,995,204	\$ 4,997,673	\$ 79,635
Salaries payable	2,199	-	2,199	-
Due to other governments	2,246,292	85,615,186	85,918,697	1,942,781
<b>Total Liabilities</b>	<b>\$ 2,330,595</b>	<b>\$ 90,610,390</b>	<b>\$ 90,918,569</b>	<b>\$ 2,022,416</b>

**OTHER SCHEDULE**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

***EXHIBIT D-1***

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

**Appropriations and Shared Revenue**

**State**

Highway users tax	\$ 11,103,867
County program aid	1,981,483
PERA rate reimbursement	54,851
Disparity reduction aid	371,725
Police aid	181,914
E-911	104,409
Market value credit	169,694
Casino revenue aid	55,595
	55,595

**Total shared revenue** **\$ 14,023,538**

**Reimbursement for Services**

Minnesota Department of Human Services **\$ 1,219,904**

**Payments**

**Local**

Other local contributions \$ 125,939

**State**

Payments in lieu of taxes 424,474

**Total payments** **\$ 550,413**

**Grants**

**State**

Minnesota Department/Board of	
Crime Victim Services	\$ 83,200
Public Safety	441,364
Transportation	92,672
Health	310,495
Natural Resources	278,997
Human Services	2,899,302
Water and Soil Resources	88,335
Office of Environmental Assistance	102,818
Minnesota Pollution Control Agency	28,114
Iron Range Resources and Rehabilitation Board	274,546
	274,546

**Total state** **\$ 4,599,843**

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT D-1  
(Continued)**

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

**Grants (Continued)**

**Federal**

Department of Agriculture	\$ 627,752
Transportation	255,840
Education	1,933
Health and Human Services	4,220,598
Homeland Security	<u>607,540</u>

**Total federal grants** **\$ 5,713,663**

**Total state and federal grants** **\$ 10,313,506**

**Other Federal**

**Treasury**

Build America Bonds Interest Subsidy	<u>\$ 174,973</u>
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**Total Intergovernmental Revenue** **\$ 26,282,334**





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REBECCA OTTO  
STATE AUDITOR

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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, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 20, 2017. 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 obligation 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, 2006-005, and 2012-002 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*, except as described in the Schedule of Findings and Questioned Costs as item 2008-002. 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

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 20, 2017

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REBECCA OTTO  
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, 2016. 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, 2016.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001. Our opinion on each major federal program is not modified with respect to these matters.

Carlton County's response to the noncompliance finding identified in our audit is described in the accompanying Corrective Action Plan. Carlton County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001, that we consider to be a significant deficiency.

Carlton County's response to the internal control over compliance finding identified in our audit is described in the accompanying Corrective Action Plan. Carlton County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **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

December 20, 2017

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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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, 2016.

#### ***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, 2016, in accordance with accounting principles generally accepted in the United States of America.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

December 20, 2017

*/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, 2016**

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **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? **Yes**

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)? **Yes**

The major federal programs are

Child Support Enforcement  
Medical Assistance Program

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 No. 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 generally accepted accounting principles 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 No. 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 No. 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 No. 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 No. 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 No. 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 No. 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 No. 45 was applicable to Carlton County for the year ended December 31, 2008.

**Condition:** GASB Statement No. 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 No. 45.

**Effect:** Because Carlton County has not complied with the requirements of GASB Statement No. 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 No. 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 No. 45. This will require the County Board to contract with an actuarial service to determine the liability.

**View of Responsible Official:** Concur

Finding Number 2012-002

Timeliness of Preparation of Financial Statements

**Criteria:** Management is responsible for preparing the County's financial statements in accordance with generally accepted accounting principles and Title 2 U.S. *Code of Federal Regulations* § 200.510(a). The financial statement preparation requires internal control over both (1) recording, processing, and summarizing accounting data (that is, maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

**Condition:** Certain information needed for financial reporting was not prepared by County staff in advance of the audit. Although County staff attempted to provide information as timely as possible during the audit, there were delays in obtaining some information requested. With the exception of the Human Services Special Revenue Fund, various workpapers and schedules necessary to support the County's conversion of its cash basis general ledger to modified accrual were provided for audit as they became available after September 11, 2017.

**Context:** Preparation of information included in the County's financial statements is performed by the County Auditor/Treasurer's Office. That information is to be provided to the Office of the State Auditor in the time, form, and manner to finalize the audit in order to meet the County's September 30 single audit deadline.

**Effect:** Delays in completing the County's financial statements within a reasonable amount of time. As a result, the County's audit report was not issued in time to meet the September 30, 2017, single audit deadline.

**Cause:** Certain financial information necessary for the County's financial statements was not completed prior to the audit.

**Recommendation:** The Board of County Commissioners and management should take responsibility for the financial statements by reviewing internal controls currently in place over the preparation of the financial statements. Procedures should be implemented to ensure that the necessary financial information be prepared in a manner that allows the auditors an adequate amount of time to complete the audit by the County's required deadline.

**View of Responsible Official:** Acknowledged

### III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

#### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2015-001

#### Medical Assistance Eligibility

**Program:** U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award No. 05-1605MN5MAP, 2016

**Pass-Through Agency:** Minnesota Department of Human Services

**Criteria:** Title 2 U.S. *Code of Federal Regulations* § 200.303 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.

**Condition:** The state maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. While periodic supervisory case reviews are performed to provide reasonable assurance of compliance with grant requirements for eligibility, the following exceptions were detected in our sample of 40 cases tested:

- In one instance, bank accounts were verified but the accounts panel in MAXIS was not updated by the financial worker. Assets did not exceed the asset limit.
- In one instance, the disability basis was incorrectly marked, leading to client eligibility criteria not being consistent between the MAXIS system and the Medicaid Management Information System.

**Questioned Costs:** Not applicable. The County administers the program, but benefits to participants in this program are paid by the State of Minnesota.

**Context:** The sample size was based on guidance from Chapter 21 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

The State of Minnesota contracts with the County Public Health and Human Services Department to perform the "intake function" (meeting with the social services recipient to determine income and categorical eligibility), while the state maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to participants.

**Effect:** Missing or inaccurate information in MAXIS increases the risk that participants will receive benefits when they are not eligible or will be incorrectly denied benefits.

**Cause:** Program personnel entering case information into MAXIS did not ensure all information was entered into MAXIS or that it was verified as required.

**Recommendation:** We recommend the County implement additional procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is obtained and properly input into MAXIS. In addition, consideration should be given to providing additional training to program personnel and increased supervisory review for new and less experienced staff.

**View of Responsible Official:** Acknowledged

#### IV. OTHER FINDINGS AND RECOMMENDATIONS

##### A. MINNESOTA LEGAL COMPLIANCE

###### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2008-002

###### Collateral Assignments

**Criteria:** Collateral assignments are required by Minn. Stat. § 118A.03, subd. 4, to be in writing and provide, upon default, that a depository shall release collateral pledged to the government entity on demand.

**Condition:** Carlton County has deposits with Wells Fargo Bank. To secure these deposits, Wells Fargo Bank has pledged collateral to Carlton County. The most current pledge agreement on file is dated 2003. The Wells Fargo Bank pledge agreement does not contain the language required by Minn. Stat. § 118A.03, subd. 4, that, “upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged.”

**Context:** Current collateral assignments are advisable to ensure that proper statutory language is included in the collateral assignments so that the County’s interests are properly protected. The collateral assignments should also be approved by the bank’s board of directors or loan committee in order to be enforceable. See 12 U.S.C. § 1823(e).

**Effect:** The current depository pledge agreement with Wells Fargo Bank does not conform to the requirements of Minn. Stat. § 118A.03, subd. 4.

**Cause:** The County has not been successful in its attempts to obtain a pledge agreement from Wells Fargo Bank that conforms to the requirements of Minn. Stat. § 118A.03, subd. 4.

**Recommendation:** We recommend the County Auditor/Treasurer obtain a new collateral assignment from Wells Fargo Bank. The new assignment should be reviewed to ensure it includes the statutory language required by Minn. Stat. § 118A.03, subd. 4, and is approved by the bank's board of directors or loan committee.

**View of Responsible Official:** Acknowledged

B. 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

C. 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

1996-003 Electronic Funds Transfer Policy  
1996-004 Unclaimed Funds  
1996-024 Budgets  
1996-025 Travel Policy  
2004-001 Publication of Financial Statements  
2006-002 Audit Adjustments  
2013-001 Identification of Federal Awards (CFDA No. 20.106)

**REPRESENTATION OF CARLTON COUNTY  
CARLTON, MINNESOTA**

**CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**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; currently, appropriate County supervisory staff do review and approve journal entries.

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: 2012-002**

**Finding Title: Timeliness of Preparation of Financial Statements**

Name of Contact Person Responsible for Corrective Action:

Paul Gassert - County Auditor/Treasurer

Corrective Action Planned:

The County is working to resolve this condition. Additional staff has 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. To date, the County has yet to have all necessary information ready for the financial report in advance of the annual audit. The County will continue to strive to have all the necessary information prepared and ready in advance of the annual audit.

Anticipated Completion Date:

Ongoing

**Finding Number: 2015-001**

**Finding Title: Medical Assistance Eligibility**

**Program: Medical Assistance Program (CFDA No. 93.778)**

Name of Contact Person Responsible for Corrective Action:

Paul Gassert - County Auditor/Treasurer  
(in conjunction with Public Health and Human Services staff)

Corrective Action Planned:

Carlton County will implement a case review process and provide training throughout the year so as to eliminate these types of errors.

Anticipated Completion Date:

December 31, 2018

**Finding Number: 2008-002**

**Finding Title: Collateral Assignments**

Name of Contact Person Responsible for Corrective Action:

Paul Gassert - County Auditor/Treasurer

Corrective Action Planned:

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. The County has resolved this issue by choosing not to have deposits with Wells Fargo which would require pledged collateral. To date, the County continues to not have deposits with Wells Fargo which would require pledged collateral.

Anticipated Completion Date:

December 31, 2017

**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



**REPRESENTATION OF CARLTON COUNTY  
CARLTON, MINNESOTA**

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

**Finding Number: 1996-011**

**Finding Title: Capital Assets**

**Summary of Condition:** Carlton County does not report capital assets on its 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. Carlton County management plans to contract with a vendor to provide assistance with this project. 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.

**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 (due to a retirement), 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: 2006-002**  
**Finding Title: Audit Adjustments**

**Summary of Condition:** During the course of the annual audit (by the Office of the State Auditor), the auditors identified material adjustments that resulted in significant changes to the County's financial statements. The County provides cash basis financial statements and prepares some modified accrual information necessary to adjust the cash basis financial statements to the modified accrual basis.

**Summary of Corrective Action Previously Reported:** The County Auditor/Treasurer staff will work to resolve this issue. Auditor/Treasurer staff will review the County prepared trial balances and prepare the necessary (if any) audit adjustments and/or reclassifications so as to ensure the County financial statements reflect the accrual basis of accounting.

**Status:** Fully Corrected. For 2016, the County Auditor/Treasurer staff did prepare more of the necessary audit adjustments and/or reclassifications so as to ensure the County financial statements reflect the accrual basis of accounting.

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 management does not review and/or approve journal entries 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, and has not reported 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:** Partially Corrected. The County has yet to have all necessary information ready for the financial report in advance of the annual audit. With the hiring of additional staff, much more of the information has been prepared in advance of the audit. The County will continue to strive to have all the necessary information prepared and ready in advance of the annual audit.

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

**Finding Number: 2013-001**

**Finding Title: Identification of Federal Awards**

**Program: Airport Improvement Program (CFDA No. 20.106)**

**Summary of Condition:** Carlton County did not adequately identify amounts expended for federal awards on the Schedule of Expenditures of Federal Awards (SEFA).

**Summary of Corrective Action Previously Reported:** The County Board will seek to identify all federal revenues at the time of acceptance of the federal grants. The County has adopted a policy whereby County Board approval is required prior to the acceptance of any/all federal grant awards.

**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 Airport Improvement Program.

**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 Airport Improvement Program.)

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:** Not Corrected. The County will implement a case review process and provide training throughout the year to eliminate these types of errors.

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

**Finding Number: 1996-003**

**Finding Title: Electronic Funds Transfer Policy**

**Summary of Condition:** The County Board has not established written policies and procedures for investment and expenditure transactions via electronic funds transfers.

**Summary of Corrective Action Previously Reported:** A 'draft' of the policy has been prepared and is currently being reviewed by the Carlton County Policy Committee.

**Status:** Fully Corrected. During 2016, the draft policy was reviewed and approved by the Carlton County Policy Committee, and accepted by the County Board.

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

**Finding Number: 1996-004**  
**Finding Title: Unclaimed Funds**

**Summary of Condition:** The Carlton County Auditor/Treasurer has established a system for keeping track of checks to be reported to the Commissioner of the Minnesota Department of Commerce. However, the County had not filed any unclaimed property reports with the state or turned over any money to the state.

**Summary of Corrective Action Previously Reported:** The County has resolved this issue and the unclaimed funds have been reported and remitted to the Department of Commerce's Unclaimed Property Division.

**Status:** Fully Corrected. Corrective action was taken.  
Was corrective action taken significantly different than the action previously reported?  
Yes \_\_\_\_\_ No  X

**Finding Number: 1996-025**  
**Finding Title: Travel Policy**

**Summary of Condition:** The County does not have a formal written travel policy. The County has set meal and mileage allowances by various Board resolutions; however, no detailed guidance is available on travel expenses.

**Summary of Corrective Action Previously Reported:** The County Board will be considering a formal travel policy. A 'draft of the policy' has been prepared and is currently being reviewed by the Carlton County Policy Committee.

**Status:** Fully Corrected. Corrective action was taken.  
Was corrective action taken significantly different than the action previously reported?  
Yes \_\_\_\_\_ No  X

**Finding Number: 2004-001**  
**Finding Title: Publication of Financial Statements**

**Summary of Condition:** The County did not publish the financial statements for 2015.

**Summary of Corrective Action Previously Reported:** As required by statute, the Carlton County Auditor will ensure that the financial statements are published in the County's legal newspaper.

**Status:** Fully Corrected. The County did publish the 2015 and 2016 financial statement summaries.

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 is working to secure a new collateral agreement with Wells Fargo.

**Status:** Not Corrected. The County has not been successful in its attempts to obtain an updated pledge agreement from Wells Fargo Bank that conforms to the requirements of Minnesota statutes. Effective in 2017, the County does not intend to have deposits with Wells Fargo which would require pledged collateral.

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

**Finding Number: 1996-024**

**Finding Title: Budgets**

**Summary of Condition:** The County does not have a formal written budget policy. Past practice has been an informal policy of the Board to approve all line-item budget changes and all budget adjustments.

**Summary of Corrective Action Previously Reported:** A draft of the policy has been established and this draft shall be presented to the County Board for consideration and/or approval. The County Board has appointed a committee to oversee the budget process, including budget changes made during the year. The draft of the policy will formalize the actions currently taken by this committee.

**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 MIS office is actively working on the adoption of a Plan and it also working with the MCIS to insure that there is an agreement with an alternative site to provide backup in the event of a disaster. Formal disaster recovery sites are being identified and agreements shall be negotiated for such a Plan.

**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.

**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

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT D-2**

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

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>			
Direct			
Environmental Quality Incentives Program	10.912		\$ 20,677
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	16162MN004W1003	138,207
Passed Through Minnesota Department of Human Services			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	1515MN10152514	<u>468,868</u>
<b>Total U.S. Department of Agriculture</b>			<b>\$ <u>627,752</u></b>
<b>U.S. Department of Transportation</b>			
Passed Through Minnesota Department of Transportation			
Airport Improvement Program	20.106	SP 902-54	\$ (14,283)
Highway Planning and Construction	20.205	00009	<u>18,303</u>
<b>Total U.S. Department of Transportation</b>			<b>\$ <u>4,020</u></b>
<b>U.S. Department of Education</b>			
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board			
Special Education - Grants for Infants and Families	84.181	H18A150029	<b>\$ <u>1,933</u></b>
<b>U.S. Department of Health and Human Services</b>			
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board			
Public Health Emergency Preparedness	93.069	NU90TP000529	\$ 38,464
Universal Newborn Hearing Screening	93.251	H61MC00035	150
Immunization Cooperative Agreements	93.268	H23IP000737	400
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	X10MC29483	107,095
Temporary Assistance for Needy Families (TANF) (Total TANF 93.558 \$406,180)	93.558	2015G996115	51,374
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	NU58DP005452	5,439
Maternal and Child Health Services Block Grant to the States	93.994	B04MC29349	41,200

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT D-2  
(Continued)**

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

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services (Continued)</b>			
Passed Through Fond du Lac Tribal and Community College Pregnancy Assistance Fund Program	93.500	SP1AH000022-01-00	27,293
Passed Through Minnesota Department of Human Services			
Guardianship Assistance	93.090	1501MNGARD	13,366
Promoting Safe and Stable Families	93.556	G-1601MNFPS	7,195
Temporary Assistance for Needy Families (TANF)	93.558	1601MNTANF	113,525
Temporary Assistance for Needy Families (TANF)	93.558	1601MFTANF	241,281
(Total TANF 93.558 \$406,180)			
Child Support Enforcement	93.563	1604MNCSES	123,048
Child Support Enforcement	93.563	1604MNCES	938,602
(Total Child Support Enforcement 93.563 \$1,061,650)			
Refugee and Entrant Assistance - State-Administered Programs	93.566	1601MNRMA	478
Child Care and Development Block Grant	93.575	G1601MNCDF	11,201
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFPG	19,774
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	13,825
Foster Care - Title IV-E	93.658	1601MNFOS	303,851
Adoption Assistance	93.659	1601MNADPT	58,890
Social Services Block Grant	93.667	16-01MNSOSR	280,389
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	1,607
Medical Assistance Program	93.778	05-1605MN5-ADM	15,588
Medical Assistance Program	93.778	05-1605MN5MAP	1,806,563
(Total Medical Assistance Program 93.778 \$1,822,151)			
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 4,220,598</b>
<b>U.S. Department of Homeland Security</b>			
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	SBG-112216	\$ 4,028
Passed Through Minnesota Department of Public Safety			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR-4069	(12,641)
Emergency Management Performance Grants	97.042	F-EMPG-2015-CARLTONCO	2,924
Emergency Management Performance Grants	97.042	F-EMPG-2016-CARLTONCO	23,776
(Total Emergency Management Performance Grants 97.042 \$26,700)			
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 18,087</b>
<b>Total Federal Awards</b>			<b>\$ 4,872,390</b>

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2016.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Carlton County under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Carlton County, it is not intended to and does not present the financial position, changes in net position, or cash flows 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. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Carlton County has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$	5,713,663
Grants received more than 90 days after year-end, unavailable in 2016		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)		261,625
Unavailable in 2015, recognized as revenue in 2016		
Airport Improvement Program		(251,820)
Disaster Grants - Public Assistance (Presidentially Declared Disasters)		(851,078)
		(851,078)
Expenditures Per Schedule of Expenditures of Federal Awards	\$	4,872,390