

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

CARLTON COUNTY
CARLTON, MINNESOTA

YEAR ENDED DECEMBER 31, 2014

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 700 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, 2014



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

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**CARLTON COUNTY
CARLTON, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		5
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	1	11
Statement of Activities	2	12
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	13
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position--Governmental Activities	4	17
Statement of Revenues, Expenditures, and Changes in Fund Balance	5	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	6	20
Fiduciary Funds		
Statement of Fiduciary Net Position	7	21
Notes to the Financial Statements		22
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	A-1	56
Special Revenue Funds		
Road and Bridge Fund	A-2	59
Human Services Fund	A-3	60
Notes to the Required Supplementary Information		61

**CARLTON COUNTY
CARLTON, MINNESOTA**

TABLE OF CONTENTS

	Exhibit	Page
Financial Section (Continued)		
Supplementary Information		
Nonmajor Governmental Funds		62
Balance Sheet	B-1	63
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	B-2	64
Budgetary Comparison Schedules		
Forfeited Tax Special Revenue Fund	B-3	65
Debt Service Fund	B-4	66
Fiduciary Funds		67
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	C-1	68
Other Schedule		
Schedule of Intergovernmental Revenue	D-1	72
Management and Compliance Section		
Schedule of Findings and Questioned Costs		74
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		100
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance		103
Report on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133		106
Schedule of Expenditures of Federal Awards	D-2	108
Notes to the Schedule of Expenditures of Federal Awards		111

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**CARLTON COUNTY
CARLTON, MINNESOTA**

**ORGANIZATION
AS OF DECEMBER 31, 2014**

			<u>Term Expires</u>
Elected			
Commissioners			
Board Chair	Dick Brenner	District 1	January 2017
Board Member	Marv Bodie	District 2	January 2015
Board Member	Thomas Proulx	District 3	January 2017
Board Member	Robert Olean	District 4	January 2015
Board Member	Gary Peterson	District 5	January 2017
Attorney	Thomas H. Pertler		January 2015
Auditor/Treasurer	Paul Gassert		January 2015
Coroner	Ricard Puumala, M.D.		January 2015
Sheriff	Kelly Lake		January 2015
Appointed			
Assessor	Marci Moreland		January 2017
Recorder	Kristine Basilici		January 2015
Registrar of Titles	Kristine Basilici		January 2015
Highway Engineer	Mike Tardy		March 2017
Veteran Services Officer	Duane Brownie		January 2015
Surveyor	William Hayden		December 2015
County Coordinator	Dennis Genereau		Ongoing

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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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, 2014, 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 of 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 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.8. 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 cost be accrued as liabilities and expenses as the employees earn the right to the 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, 2014, 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, 2014, and the 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.

Supplementary 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 supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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 November 24, 2015, 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

November 24, 2015

/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, 2014
(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, 2014. 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 \$24,122,060, of which \$12,916,597 is restricted for specific purposes.
- Carlton County's governmental activities' net position increased by \$3,235,579 for the year ended December 31, 2014.
- The net cost of governmental activities was \$22,392,341 for the current fiscal year. The net cost was funded by general revenues totaling \$25,627,920.
- Governmental funds' fund balances increased by \$3,198,570.
- 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)

	2014	2013
Assets	\$ 44,633	\$ 45,199
Liabilities		
Long-term liabilities outstanding	\$ 15,957	\$ 18,359
Other liabilities	4,554	5,954
Total Liabilities	\$ 20,511	\$ 24,313
Net Position		
Restricted	\$ 12,917	\$ 15,812
Unrestricted	11,205	5,074
Total Net Position	\$ 24,122	\$ 20,886

Table 2
Changes in Net Position
(in Thousands)

	2014	2013
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 6,336	\$ 5,984
Operating grants and contributions	18,303	17,810
Capital grants and contributions	892	2,690
General revenues		
Property taxes	22,211	21,244
Other taxes	525	480
Grants and contributions	2,611	2,784
Other general revenues	281	285
	<u>\$ 51,159</u>	<u>\$ 51,277</u>
Expenses		
Program expenses		
General government	\$ 7,180	\$ 6,376
Public safety	8,376	7,773
Culture and recreation	482	319
Highways and streets	10,392	12,343
Human services	14,328	13,431
Health	2,279	2,798
Sanitation	1,336	1,274
Conservation of natural resources	1,327	1,231
Economic development	1,679	2,027
Interest	544	743
	<u>\$ 47,923</u>	<u>\$ 48,315</u>
Increase (Decrease) in Net Position	\$ 3,236	\$ 2,962
Net Position, January 1	<u>20,886</u>	<u>17,924</u>
Net Position, December 31	<u>\$ 24,122</u>	<u>\$ 20,886</u>

Governmental Activities

The cost of all governmental activities this year was \$47,923,333. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$22,211,091, because some of the cost was paid by those who directly benefited from the programs (\$6,336,205) or by other governments and organizations that subsidized certain programs with grants and contributions (\$19,194,787).

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	
	2014	2013	2014	2013
General government	\$ 7,180	\$ 6,376	\$ 4,622	\$ 4,701
Public safety	8,376	7,773	7,199	5,517
Highways and streets	10,392	12,343	1,905	4,916
Human services	14,328	13,431	5,627	5,968
Health	2,279	2,798	344	280
All others	5,368	5,594	2,695	449
Totals	<u>\$ 47,923</u>	<u>\$ 48,315</u>	<u>\$ 22,392</u>	<u>\$ 21,831</u>

THE COUNTY’S FUNDS

As the County completed the year, its governmental funds reported a combined fund balance of \$32,472,965, which is more than last year’s total of \$29,274,395. Included in this year’s total fund balance is a surplus of \$16,249,576 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 exceeded the final budget by \$911,548. The largest variance was in economic development.

On the other hand, resources available for appropriation exceeded the final budget for the County’s General Fund by \$846,355. Collections were greater than expected in intergovernmental revenues, charges for services, and miscellaneous revenues and less than expected for real estate taxes.

Fund balance was not anticipated to change for the year. Actual fund balance decreased by \$150,366 due mostly to net excess expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, 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 \$12,950,000 outstanding in general obligation bonds backed by the County, versus \$15,530,000 last year.

The County did not issue bonds in 2014. Principal and interest payments on all bonds and notes will not exceed the amount allowed by Minn. Stat. § 373.40.

Other obligations include loans payable and accrued vacation pay and sick leave payable. More detailed information about the County's long-term liabilities is presented in Note 2.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 2015 budget and tax levy:

- anticipated increase of \$100,000 for insurance costs,
- anticipated reduction of \$100,000 in property and casualty and workers' compensation dividends,
- increase of \$210,000 for various new staff,
- increase of \$100,000 for Community Corrections agreement,
- increase of \$800,000 for the 2015 wage COLA adjustments, and
- increase of 4.95 percent for property tax levies in 2015.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014**

Assets

Cash and pooled investments	\$ 26,594,259
Receivables - net	16,258,061
Inventories	787,369
Prepaid items	<u>993,562</u>
Total Assets	<u>\$ 44,633,251</u>

Liabilities

Accounts payable and other current liabilities	\$ 3,303,081
Accrued interest payable	210,694
Unearned revenue	1,040,521
Long-term liabilities	
Due within one year	744,610
Due in more than one year	<u>15,212,285</u>
Total Liabilities	<u>\$ 20,511,191</u>

Net Position

Restricted for	
General government	\$ 629,080
Public safety	72,979
Highways and streets	5,915,834
Sanitation	18,383
Conservation of natural resources	344,155
Economic development	4,164,348
Debt service	1,771,818
Unrestricted	<u>11,205,463</u>
Total Net Position	<u>\$ 24,122,060</u>

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Program Revenues			Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions		
Functions/Programs					
Governmental activities					
General government	\$ 7,179,741	\$ 1,311,660	\$ 1,245,948	\$ -	\$ (4,622,133)
Public safety	8,375,762	248,179	928,250	-	(7,199,333)
Highways and streets	10,392,307	1,056,351	6,602,219	828,373	(1,905,364)
Sanitation	1,335,939	881,025	627,628	-	172,714
Human services	14,327,964	1,351,851	7,348,766	-	(5,627,347)
Health	2,279,011	392,559	1,542,747	-	(343,705)
Culture and recreation	482,141	-	-	-	(482,141)
Conservation of natural resources	1,327,342	871,292	3,691	-	(452,359)
Economic development	1,678,746	223,288	4,135	63,030	(1,388,293)
Interest	544,380	-	-	-	(544,380)
Total Governmental Activities	\$ 47,923,333	\$ 6,336,205	\$ 18,303,384	\$ 891,403	\$ (22,392,341)
General Revenues					
Property taxes					\$ 22,211,091
Mortgage registry and deed tax					19,932
Payments in lieu of tax					505,550
Grants and contributions not restricted to specific programs					2,610,835
Unrestricted investment earnings					79,366
Miscellaneous					201,146
Total general revenues					\$ 25,627,920
Change in net position					\$ 3,235,579
Net Position - Beginning					20,886,481
Net Position - Ending					\$ 24,122,060

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**CARLTON COUNTY
CARLTON, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 11,813,446	\$ 3,745,396
Petty cash and change funds	1,900	-
Taxes receivable		
Delinquent	591,508	143,779
Special assessments receivable		
Delinquent	45,118	-
Accounts receivable	68,244	1,020
Accrued interest receivable	31,208	-
Due from other funds	270,484	78,438
Due from other governments	882,257	8,511,392
Inventories	-	787,369
Prepaid items	993,562	-
Loans receivable	3,523,351	-
	\$ 18,221,078	\$ 13,267,394
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 175,164	\$ 301,596
Salaries payable	430,276	121,702
Contracts payable	330,176	339,147
Due to other funds	75,760	-
Due to other governments	90,081	420,528
Unearned revenue	54,588	955,892
	\$ 1,156,045	\$ 2,138,865
Deferred Inflows of Resources		
Unavailable revenue		
Taxes	\$ 545,307	\$ 127,608
Grants	270,150	5,939,678
Long-term receivables	-	-
	\$ 815,457	\$ 6,067,286

EXHIBIT 3

<u>Human Services</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 8,952,351	\$ 1,765,376	\$ 308,180	\$ 26,584,749
7,610	-	-	9,510
312,028	66,064	-	1,113,379
-	-	-	45,118
74,359	-	679,648	823,271
-	-	-	31,208
-	-	-	348,922
1,328,085	-	-	10,721,734
-	-	-	787,369
-	-	-	993,562
-	-	-	3,523,351
<u>\$ 10,674,433</u>	<u>\$ 1,831,440</u>	<u>\$ 987,828</u>	<u>\$ 44,982,173</u>
\$ 397,935	\$ -	\$ 3,588	\$ 878,283
415,581	-	8,559	976,118
-	-	-	669,323
-	-	273,162	348,922
234,566	-	34,182	779,357
30,041	-	-	1,040,521
<u>\$ 1,078,123</u>	<u>\$ -</u>	<u>\$ 319,491</u>	<u>\$ 4,692,524</u>
\$ 299,660	\$ 59,622	\$ -	\$ 1,032,197
-	-	-	6,209,828
-	-	574,659	574,659
<u>\$ 299,660</u>	<u>\$ 59,622</u>	<u>\$ 574,659</u>	<u>\$ 7,816,684</u>

**CARLTON COUNTY
CARLTON, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	General	Road and Bridge
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> (Continued)		
Fund Balances		
Nonspendable		
Inventories	\$ -	\$ 787,369
Prepaid items	993,562	-
Long-term loans	3,523,351	-
Restricted for		
Debt service	-	-
Law library	92,743	-
Recorder's technology equipment	210,978	-
Recorder's compliance	203,060	-
Missing heirs	26,080	-
Prosecutorial purposes	96,219	-
Administering the carrying of weapons	51,939	-
Law enforcement	21,040	-
Timber development	344,155	-
Economic development	659,380	-
Highways and streets	-	3,136,276
Town roads	-	36,996
Assigned to		
Highways and streets	-	1,100,602
Human services	-	-
Forfeited tax	-	-
Unassigned	10,027,069	-
Total Fund Balances	\$ 16,249,576	\$ 5,061,243
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 18,221,078	\$ 13,267,394

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 787,369
-	-	-	993,562
-	-	-	3,523,351
-	1,771,818	-	1,771,818
-	-	-	92,743
-	-	-	210,978
-	-	-	203,060
-	-	-	26,080
-	-	-	96,219
-	-	-	51,939
-	-	-	21,040
-	-	-	344,155
-	-	-	659,380
-	-	-	3,136,276
-	-	-	36,996
-	-	-	1,100,602
9,296,650	-	-	9,296,650
-	-	93,678	93,678
-	-	-	10,027,069
<u>\$ 9,296,650</u>	<u>\$ 1,771,818</u>	<u>\$ 93,678</u>	<u>\$ 32,472,965</u>
<u>\$ 10,674,433</u>	<u>\$ 1,831,440</u>	<u>\$ 987,828</u>	<u>\$ 44,982,173</u>

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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, 2014**

Fund balances - total governmental funds (Exhibit 3)	\$ 32,472,965
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.	7,816,684
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	\$ (12,950,000)
Bond discount	37,564
Accrued interest payable	(210,694)
Compensated absences	(3,044,459)
	<u>(16,167,589)</u>
Net Position of Governmental Activities (Exhibit 1)	<u>\$ 24,122,060</u>

**CARLTON COUNTY
CARLTON, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General	Road and Bridge
Revenues		
Taxes	\$ 11,817,307	\$ 2,775,609
Special assessments	526,229	-
Licenses and permits	133,744	-
Intergovernmental	3,902,531	10,185,469
Charges for services	2,235,664	628,779
Fines and forfeits	57,929	-
Gifts and contributions	21,295	-
Investment income	78,116	1,250
Miscellaneous	693,418	428,465
	\$ 19,466,233	\$ 14,019,572
Expenditures		
Current		
General government	\$ 7,139,307	\$ -
Public safety	8,310,244	-
Highways and streets	-	10,042,799
Sanitation	1,335,939	-
Human services	-	-
Health	-	-
Culture and recreation	482,141	-
Conservation of natural resources	724,579	-
Economic development	1,678,746	-
Capital outlay	-	-
Debt service		
Principal	-	-
Interest	-	-
Administrative charge	-	-
	\$ 19,670,956	\$ 10,042,799
Excess of Revenues Over (Under) Expenditures	\$ (204,723)	\$ 3,976,773
Other Financing Sources (Uses)		
Transfers in	\$ 90,484	\$ -
Transfers out	(36,127)	-
	\$ 54,357	\$ -
Net Change in Fund Balance	\$ (150,366)	\$ 3,976,773
Fund Balance - January 1	16,399,942	1,391,099
Increase (decrease) in inventories	-	(306,629)
Fund Balance - December 31	\$ 16,249,576	\$ 5,061,243

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

EXHIBIT 5

<u>Human Services</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 6,394,161	\$ 1,277,068	\$ -	\$ 22,264,145
-	-	-	526,229
-	-	-	133,744
9,803,354	206,008	52,014	24,149,376
1,301,158	-	-	4,165,601
-	-	-	57,929
-	-	-	21,295
-	-	-	79,366
440,577	-	593,021	2,155,481
<u>\$ 17,939,250</u>	<u>\$ 1,483,076</u>	<u>\$ 645,035</u>	<u>\$ 53,553,166</u>
\$ -	\$ -	\$ -	\$ 7,139,307
-	-	-	8,310,244
-	-	-	10,042,799
-	-	-	1,335,939
14,276,052	-	-	14,276,052
2,279,011	-	-	2,279,011
-	-	-	482,141
-	-	596,978	1,321,557
-	-	-	1,678,746
-	-	43,470	43,470
-	2,580,000	-	2,580,000
-	555,539	-	555,539
-	3,162	-	3,162
<u>\$ 16,555,063</u>	<u>\$ 3,138,701</u>	<u>\$ 640,448</u>	<u>\$ 50,047,967</u>
<u>\$ 1,384,187</u>	<u>\$ (1,655,625)</u>	<u>\$ 4,587</u>	<u>\$ 3,505,199</u>
\$ 626,050	\$ -	\$ 213,486	\$ 930,020
-	(195,977)	(697,916)	(930,020)
<u>\$ 626,050</u>	<u>\$ (195,977)</u>	<u>\$ (484,430)</u>	<u>\$ -</u>
\$ 2,010,237	\$ (1,851,602)	\$ (479,843)	\$ 3,505,199
7,286,413	3,623,420	573,521	29,274,395
-	-	-	(306,629)
<u>\$ 9,296,650</u>	<u>\$ 1,771,818</u>	<u>\$ 93,678</u>	<u>\$ 32,472,965</u>

**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, 2014**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 3,505,199

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

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

Unavailable revenue - December 31	\$ 7,816,684	
Unavailable revenue - January 1	<u>(10,210,938)</u>	(2,394,254)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal repayments		
General obligation bonds	<u>\$ 2,580,000</u>	2,580,000

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

Change in accrued interest payable	\$ 28,820	
Change in compensated absences	(163,058)	
Amortization of bond discounts	(14,499)	
Change in inventories	<u>(306,629)</u>	<u>(455,366)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 3,235,579

FIDUCIARY FUNDS

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**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2014**

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 1,214,317</u>
<u>Liabilities</u>	
Accounts payable	\$ 80,780
Salaries payable	9,482
Due to other governments	<u>1,124,055</u>
Total Liabilities	<u>\$ 1,214,317</u>

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**CARLTON COUNTY
CARLTON, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2014. 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.8. to the financial statements.

A. Financial Reporting Entity

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

Joint Ventures

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about 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.8.

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 generally accepted accounting principles, as discussed in Notes 1.D.4. and 1.D.8.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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 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.

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, 2014, based on market prices. 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 2014 were \$79,366.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

1. Deposits and Investments (Continued)

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 MAGIC Fund is not registered with the Securities and Exchange Commission. The investment in the pool is measured at amortized cost per share provided by the pool, which approximates fair value. Information relating to the MAGIC Fund can be obtained from Client Services Group, Minnesota Association of Governments Investing for Counties, c/o PFM Asset Management LLC, P. O. Box 11760, Harrisburg, Pennsylvania 17108.

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 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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables (Continued)

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 estimated fair value at the date of donation. 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 capital expenditures have not been removed from the statement of activities. These are departures from generally accepted accounting principles.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

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 will sometimes report 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 no items that qualify for reporting in this category.

**CARLTON COUNTY
CARLTON, MINNESOTA**

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)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has only one type of item, which arises only under the modified accrual basis of accounting, that qualifies for reporting in this category. 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 become available.

8. 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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. 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.

10. 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 (ordinance or 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 (ordinance or resolution) it employed to previously commit these amounts.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Classification of Fund Balances (Continued)

- Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board, 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.

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.

11. Use of Estimates

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the County's calendar year 2015. The County has not yet determined the financial statement impact of adopting this new standard.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 26,594,259
Statement of fiduciary net position	
Cash and pooled investments	<u>1,214,317</u>
Total Cash and Investments	<u>\$ 27,808,576</u>

**CARLTON COUNTY
CARLTON, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a policy on custodial credit risk for deposits. As of December 31, 2014, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

**CARLTON COUNTY
CARLTON, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. 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, 2014, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table represents the County's deposit and investment balances at December 31, 2014, 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 Bank Bonds	Aaa/AA+	Moody's/S&P	<5%	11/21/2018	\$ 124,826
Federal Home Loan Bank Bonds	Aaa/AA+	Moody's/S&P	<5%	12/26/2019	165,109
Federal Home Loan Bank Bonds	Aaa/AA+	Moody's/S&P	<5%	09/30/2019	64,210
Federal Home Loan Bank Bonds	Aaa/AA+	Moody's/S&P	<5%	11/20/2019	99,938
Federal Home Loan Bank Bonds	Aaa/AA+	Moody's/S&P	<5%	11/26/2019	150,068
Federal Home Loan Bank Bonds	Aaa/AA+	Moody's/S&P	<5%	02/10/2019	199,762
Federal Home Loan Bank Bonds	Aaa/AA+	Moody's/S&P	<5%	12/30/2019	200,000
Total Federal Home Loan Bank Bonds					\$ 1,003,913
Federal Home Loan Mortgage Corporation Note	Aaa/AA+	Moody's/S&P	<5%	02/01/2028	\$ 1,983
Federal Home Loan Mortgage Corporation Note	Aaa/AA+	Moody's/S&P	<5%	03/12/2020	149,640
Total Federal Home Loan Mortgage Corporation Notes					\$ 151,623
Federal National Mortgage Association	Aaa/AA+	Moody's/S&P	<5%	10/01/2025	\$ 2,092
Federal National Mortgage Association	Aaa/AA+	Moody's/S&P	<5%	01/30/2018	99,958
Federal National Mortgage Association	Aaa/AA+	Moody's/S&P	<5%	02/28/2018	99,965
Federal National Mortgage Association	Aaa/AA+	Moody's/S&P	<5%	03/19/2018	149,930
Federal National Mortgage Association	Aaa/AA+	Moody's/S&P	<5%	03/27/2018	173,451
Federal National Mortgage Association	Aaa/AA+	Moody's/S&P	<5%	08/27/2019	149,952
Total Federal National Mortgage Association					\$ 675,348
Federal Farm Credit Bank Bonds	Aaa/AA+	Moody's/S&P	<5%	01/29/2020	\$ 100,106
Negotiable certificates of deposit					
American Express Centurion Bank	N/A	N/A	<5%	10/05/2015	\$ 246,101
American Express Fed Savings	N/A	N/A	<5%	03/18/2015	245,105
Apple Bank for Savings	N/A	N/A	<5%	10/13/2015	244,753
Banc California	N/A	N/A	<5%	03/31/2015	244,915
Bank Baroda	N/A	N/A	<5%	01/23/2015	244,983
Bank India	N/A	N/A	<5%	01/07/2015	244,999
Bank of Bridger	N/A	N/A	<5%	02/05/2015	244,939
Bank of China	N/A	N/A	<5%	05/20/2015	244,899
Beal Bank USA	N/A	N/A	<5%	06/10/2015	244,865
BMW Bank	N/A	N/A	<5%	09/21/2015	245,514
Capital Bank	N/A	N/A	<5%	01/25/2016	244,528
Cole Taylor Bank	N/A	N/A	<5%	03/13/2015	244,933
Discover Bank	N/A	N/A	<5%	10/02/2015	245,447

**CARLTON COUNTY
CARLTON, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and 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)					
Enerbank USA	N/A	N/A	<5%	12/18/2015	244,567
Enterprise Bank & Trust	N/A	N/A	<5%	05/18/2015	244,901
Everbank Jacksonville	N/A	N/A	<5%	06/18/2015	244,850
First Merit Bank	N/A	N/A	<5%	07/16/2015	244,935
First Niagara Bank	N/A	N/A	<5%	03/20/2015	244,926
First Savings Bank	N/A	N/A	<5%	04/30/2015	244,805
GE Cap Bank	N/A	N/A	<5%	08/24/2016	246,430
Goldman Sachs Bank	N/A	N/A	<5%	08/31/2015	245,996
Great Southern Bank	N/A	N/A	<5%	11/27/2015	244,967
Homestreet Bank	N/A	N/A	<5%	06/15/2015	244,856
Iberia Bank	N/A	N/A	<5%	09/04/2015	244,720
Independence Bank	N/A	N/A	<5%	02/05/2015	244,972
Investors Savings Bank	N/A	N/A	<5%	11/25/2015	244,865
Medallion Bank	N/A	N/A	<5%	12/29/2015	244,646
Merrick Bank	N/A	N/A	<5%	07/17/2015	244,690
Midland States Bank	N/A	N/A	<5%	06/05/2015	104,925
Bank Mizrahi-Tefahot	N/A	N/A	<5%	01/23/2015	244,977
Mizuho Corporate Bank	N/A	N/A	<5%	01/15/2015	245,012
Pacific Western Bank	N/A	N/A	<5%	12/30/2015	244,643
People's United Bank	N/A	N/A	<5%	02/20/2015	244,955
Safra National Bank	N/A	N/A	<5%	07/15/2015	244,872
Santander Bank	N/A	N/A	<5%	07/22/2015	244,999
Summit State Bank	N/A	N/A	<5%	02/03/2015	244,963
Synovus Bank	N/A	N/A	<5%	06/19/2015	244,849
United Banker's Bank	N/A	N/A	<5%	09/08/2015	244,625
Volunteer State Bank	N/A	N/A	<5%	03/30/2015	244,915
Total negotiable certificates of deposit					\$ 9,414,842
Investment pools/mutual funds					
MAGIC Fund	N/A	N/A	46.8%	N/A	\$ 9,729,454
Total investments					\$ 21,075,286
Deposits					6,723,780
Petty cash					9,510
Total Cash and Investments					\$ 27,808,576

N/A - Not Applicable

S&P - Standard & Poor's

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2014, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 1,113,379	\$ -
Special assessments	45,118	-
Accounts	823,271	-
Accrued interest	31,208	-
Due from other governments	10,721,734	-
Loans receivable	3,523,351	3,067,043
Total Governmental Activities	\$ 16,258,061	\$ 3,067,043

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 63 loans with balances outstanding. Scheduled collections on these loans range from 1 to 33 years.

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2014, is as follows:

Receivable Fund	Payable Fund	Amount	Purpose
General	Forfeited Tax	\$ 270,484	Forfeited tax apportionment and payment of fees
Road and Bridge	General	\$ 75,760	Reimburse supplies and services
	Forfeited Tax	2,678	Reimburse supplies and services
Total due to Road and Bridge Fund		\$ 78,438	
Total Due To/From Other Funds		\$ 348,922	

**CARLTON COUNTY
CARLTON, MINNESOTA**

2. Detailed Notes on All Funds

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2014, consisted of the following:

Transfers to Human Services Fund from General Fund	\$ 18,618	Collection of Title IV-D funds
Transfers to Capital Projects Fund from General Fund	17,509	Eliminate cash deficit
Transfers to Capital Projects Fund from Debt Service Fund	195,977	Eliminate cash deficit
Transfers to General Fund from Forfeited Tax Fund	90,484	Forfeited tax apportionment
Transfers to Human Services Fund from Capital Projects Fund	<u>607,432</u>	Transfer to close Capital Projects Fund
Total Interfund Transfers	<u>\$ 930,020</u>	

C. Liabilities

1. Payables

Payables at December 31, 2014, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 878,283
Salaries	976,118
Contracts	669,323
Due to other governments	<u>779,357</u>
Total Payables	<u>\$ 3,303,081</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**

2. Detailed Notes on All Funds

C. Liabilities

2. Other Postemployment Benefits - Retirees (Continued)

As of year-end, the County has 45 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 2014, the County expended \$597,149 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, 2014</u>
2010A Taxable G.O. Capital Improvement Bonds (Build America Bonds)	2025	\$180,000 - \$920,000	1.25 - 5.25	\$ 5,000,000	\$ 4,440,000
2010B Taxable G.O. Capital Improvement Bonds (Recovery Zone Economic Development Bonds)	2030	\$900,000 - \$1,005,000	5.25 - 5.75	4,750,000	4,750,000
2012A G.O. Capital Improvement Refunding Bonds	2021	\$250,000 - \$560,000	0.40 - 1.50	4,010,000	3,760,000
Total				<u>\$ 13,760,000</u>	\$ 12,950,000
Less: unamortized discount					<u>(37,564)</u>
Total General Obligation Bonds, Net					<u>\$ 12,912,436</u>

**CARLTON COUNTY
CARLTON, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2014, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2015	\$ 720,000	\$ 501,847
2016	735,000	493,340
2017	730,000	483,046
2018	750,000	470,913
2019	755,000	456,957
2020 - 2024	3,590,000	1,967,195
2025 - 2029	4,665,000	937,262
2030 - 2031	1,005,000	28,894
Total	<u>\$ 12,950,000</u>	<u>\$ 5,339,454</u>

Debt Refunding

In 2012, the County refunded the Series 2006 bonds by means of a crossover refunding mechanism. The County continued to make principal and interest payments on the Series 2006 bonds through the call date of February 1, 2014.

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 15,530,000	\$ -	\$ 2,580,000	\$ 12,950,000	\$ 720,000
Bond discount	(52,063)	-	(14,499)	(37,564)	-
Compensated absences	2,881,401	163,058	-	3,044,459	24,610
Governmental Activities					
Long-Term Liabilities	<u>\$ 18,359,338</u>	<u>\$ 163,058</u>	<u>\$ 2,565,501</u>	<u>\$ 15,956,895</u>	<u>\$ 744,610</u>

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Pension Plans

A. Defined Benefit Plans

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 Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan and 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 Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement 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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives 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. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years 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. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent for each year of service.

For General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs 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 public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

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. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014. Public Employees Police and Fire Fund members were required to contribute 10.20 percent of their annual covered salary in 2014. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary.

In 2014, the County was required to contribute the following percentages of annual covered payroll:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	15.30
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
General Employees Retirement Fund	\$ 1,034,415	\$ 979,479	\$ 939,725
Public Employees Police and Fire Fund	248,100	222,897	222,176
Public Employees Correctional Fund	65,846	63,145	62,983

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers) and the Public Employees Police and Fire Fund (10.80 percent for members and 16.20 percent for employers).

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. 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. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2014, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 4,920	\$ 4,920
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

4. Postemployment Health Care

A. MSRS Health Care Savings Plan

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

4. Postemployment Health Care

A. MSRS Health Care Savings Plan (Continued)

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

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

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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

4. Postemployment Health Care

B. Northland VEBA Trust Plan (Continued)

Eligibility requirements include:

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

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties 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 \$480,000 per claim in 2014 and \$490,000 per claim in 2015. 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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

B. Contingent Liabilities

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

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. Joint Ventures

Arrowhead Regional Corrections

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

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Arrowhead Regional Corrections (Continued)

Arrowhead Regional Corrections is governed by an eight-member Board composed of one member appointed from each of the participating counties' Boards of Commissioners, except for St. Louis County, which has three members appointed by its Board. In addition, the right to have an additional member is annually rotated among Carlton, Cook, Koochiching, and Lake Counties. Arrowhead Regional Corrections is financed through state grants and contributions from the participating counties. Carlton County provided \$2,207,890 in funding in 2014; \$492,000 of that amount was the County's share towards renovations at the Northeast Regional Corrections Center.

Separate financial information can be obtained from:

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

Carlton County Children and Family Service Collaborative

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

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

Control of the Collaborative is vested in a Board of Directors. Carlton County has two members on the Board. Financing is provided by state and local grants, appropriations from Collaborative members, and miscellaneous revenues. Carlton County is the fiscal agent for the Collaborative and handles all of the financial transactions for this organization. Financial information for the Collaborative for the fiscal year ended December 31, 2014, is accounted for in an agency fund of Carlton County.

**CARLTON COUNTY
CARLTON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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

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

The Community Health Board is composed of nine members. The Carlton, Cook, and Lake County Boards of Commissioners each appoint two members; the St. Louis County Board of Commissioners appoints three members. Financing is obtained through federal and state grants. Carlton County provided no funding to this organization in 2014.

Separate financial information can be obtained from:

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

Northeast Minnesota Office of Job Training

Aitkin, Carlton, Cook, Itasca, Koochiching, Lake, and St. Louis Counties (excluding the City of Duluth) entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of developing and implementing a private and public job training program. The United States Congress, through the Job Training Partnership Act of 1982, authorized states to establish “service delivery areas” to provide programs to achieve full employment through the use of grants. The counties identified above are defined as a service delivery area, and the Northeast Minnesota Office of Job Training is designated as the grant recipient and administrator for the service delivery area. 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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

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

Minnesota Community Capital Fund

The County is a Class A member of the Minnesota Community Capital Fund (MCCF). The MCCF was established to address unmet development financing needs of communities and economic development organizations throughout greater Minnesota by pooling local revolving loan fund resources and providing professional management

**CARLTON COUNTY
CARLTON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Minnesota Community Capital Fund (Continued)

services to support local efforts. The MCCF is designed to provide its members with greater flexibility and the capacity to originate multiple loans that are much larger than would be possible with limited local resources. The MCCF was dissolved on April 30, 2014. The County terminated its membership prior to dissolution, and the \$100,000 membership fee was returned to the County.

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. Carlton County is the fiscal agent for the Arrowhead Health Alliance. The Arrowhead Health Alliance is accounted for in an agency fund of Carlton County.

Carlton County contributed \$252,397 in start-up funds to the Arrowhead Health Alliance in 2007. Carlton County provided no funding to this organization in 2014.

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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northeast Minnesota Regional Radio Board (Continued)

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

Itasca County is the fiscal agent for the Northeast Minnesota Regional Radio Board. Funding is provided by grants and contributions from participating members. Carlton County contributed no funding in 2014.

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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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, the County made no payments to the joint powers.

D. 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.

E. 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 Economic Development Authority bylaws were adopted on February 9, 2010, and the Authority's Board was appointed on March 9, 2010.

The Authority 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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

6. Subsequent Events

A. Series 2015A and Series 2015B Revenue Bonds

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 will be 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.

B. Settlement of Civil Litigation

On March 10, 2015, the Carlton County Board of Commissioners approved the acceptance of a \$1,000,000 civil settlement with a former County employee who was convicted of embezzling County funds. The last of the settlement funds were received by the County in June 2015.

REQUIRED SUPPLEMENTARY INFORMATION

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**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 12,296,708	\$ 12,296,708	\$ 11,817,307	\$ (479,401)
Special assessments	500,000	500,000	526,229	26,229
Licenses and permits	119,225	119,225	133,744	14,519
Intergovernmental	3,119,247	3,119,247	3,902,531	783,284
Charges for services	1,911,000	1,911,000	2,235,664	324,664
Fines and forfeits	36,000	36,000	57,929	21,929
Gifts and contributions	-	-	21,295	21,295
Investment income	76,200	76,200	78,116	1,916
Miscellaneous	561,498	561,498	693,418	131,920
Total Revenues	\$ 18,619,878	\$ 18,619,878	\$ 19,466,233	\$ 846,355
Expenditures				
Current				
General government				
Commissioners	\$ 287,596	\$ 287,596	\$ 600,684	\$ (313,088)
Courts	92,279	92,279	100,910	(8,631)
County auditor	1,005,106	1,005,106	1,036,588	(31,482)
License bureau	327,306	327,306	328,940	(1,634)
County assessor	749,229	749,229	731,675	17,554
Data processing	840,710	840,710	841,296	(586)
Personnel	357,800	357,800	331,245	26,555
Attorney	986,958	986,958	968,366	18,592
Law library	36,000	36,000	32,117	3,883
Recorder	531,429	531,429	550,111	(18,682)
Surveyor	15,000	15,000	15,000	-
Planning and zoning	396,636	396,636	386,724	9,912
Maintenance	959,377	959,377	930,140	29,237
Veterans service officer	298,525	298,525	285,511	13,014
Total general government	\$ 6,883,951	\$ 6,883,951	\$ 7,139,307	\$ (255,356)

**CARLTON COUNTY
CARLTON, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 3,012,840	\$ 3,012,840	\$ 3,067,705	\$ (54,865)
Snowmobile safety	5,000	5,000	4,475	525
Boat and water safety	8,000	8,000	5,837	2,163
Ambulance	80,350	80,350	80,350	-
Animal control	9,550	9,550	9,550	-
Coroner	53,687	53,687	75,016	(21,329)
E-911	880,763	880,763	874,068	6,695
County jail	1,917,573	1,917,573	1,780,408	137,165
Community corrections	2,215,890	2,215,890	2,217,346	(1,456)
Court services	116,199	116,199	118,500	(2,301)
Civil defense	49,240	49,240	76,989	(27,749)
Total public safety	\$ 8,349,092	\$ 8,349,092	\$ 8,310,244	\$ 38,848
Sanitation				
Solid waste	\$ 1,177,268	\$ 1,177,268	\$ 1,156,150	\$ 21,118
Recycling	183,435	183,435	179,789	3,646
Total sanitation	\$ 1,360,703	\$ 1,360,703	\$ 1,335,939	\$ 24,764
Culture and recreation				
Historical society	\$ 41,200	\$ 41,200	\$ 41,200	\$ -
County fair	39,750	39,750	39,750	-
Parks	66,511	66,511	251,701	(185,190)
Regional library	149,490	149,490	149,490	-
Total culture and recreation	\$ 296,951	\$ 296,951	\$ 482,141	\$ (185,190)
Conservation of natural resources				
County extension	\$ 422,599	\$ 422,599	\$ 436,433	\$ (13,834)
Soil and water conservation	108,300	108,300	108,300	-
Weed inspector	7,058	7,058	6,318	740
Timber development	10,200	10,200	29,972	(19,772)
Resource development	46,500	46,500	7,864	38,636
Water planning	80,517	80,517	134,479	(53,962)
Other conservation	7,700	7,700	1,213	6,487
Total conservation of natural resources	\$ 682,874	\$ 682,874	\$ 724,579	\$ (41,705)

**CARLTON COUNTY
CARLTON, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Airport commission	\$ 760,809	\$ 760,809	\$ 1,042,345	\$ (281,536)
Rail authority	300	300	88,065	(87,765)
Arrowhead Regional Development	-	-	161	(161)
Iron Range Resources Rehabilitation Board	424,555	424,555	514,622	(90,067)
Other economic development	173	173	33,553	(33,380)
Total economic development	\$ 1,185,837	\$ 1,185,837	\$ 1,678,746	\$ (492,909)
Total Expenditures	\$ 18,759,408	\$ 18,759,408	\$ 19,670,956	\$ (911,548)
Excess of Revenues Over (Under)				
Expenditures	\$ (139,530)	\$ (139,530)	\$ (204,723)	\$ (65,193)
Other Financing Sources (Uses)				
Transfers in	\$ 239,530	\$ 239,530	\$ 90,484	\$ (149,046)
Transfers out	(100,000)	(100,000)	(36,127)	63,873
Total Other Financing Sources (Uses)	\$ 139,530	\$ 139,530	\$ 54,357	\$ (85,173)
Net Change in Fund Balance	\$ -	\$ -	\$ (150,366)	\$ (150,366)
Fund Balance - January 1	16,399,942	16,399,942	16,399,942	-
Fund Balance - December 31	\$ 16,399,942	\$ 16,399,942	\$ 16,249,576	\$ (150,366)

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,821,639	\$ 2,821,639	\$ 2,775,609	\$ (46,030)
Intergovernmental	9,119,430	9,119,430	10,185,469	1,066,039
Charges for services	707,000	707,000	628,779	(78,221)
Investment income	-	-	1,250	1,250
Miscellaneous	498,431	498,431	428,465	(69,966)
Total Revenues	\$ 13,146,500	\$ 13,146,500	\$ 14,019,572	\$ 873,072
Expenditures				
Current				
Highways and streets				
Administration	\$ 723,871	\$ 723,871	\$ 738,244	\$ (14,373)
Maintenance	3,146,321	3,146,321	3,094,787	51,534
Construction	7,508,200	7,508,200	4,357,264	3,150,936
Equipment maintenance and shop	1,768,108	1,768,108	1,852,504	(84,396)
Total Expenditures	\$ 13,146,500	\$ 13,146,500	\$ 10,042,799	\$ 3,103,701
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ 3,976,773	\$ 3,976,773
Fund Balance - January 1	1,391,099	1,391,099	1,391,099	-
Increase (decrease) in inventories	-	-	(306,629)	(306,629)
Fund Balance - December 31	\$ 1,391,099	\$ 1,391,099	\$ 5,061,243	\$ 3,670,144

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 6,549,549	\$ 6,549,549	\$ 6,394,161	\$ (155,388)
Intergovernmental	8,487,877	8,487,877	9,803,354	1,315,477
Charges for services	865,080	865,080	1,301,158	436,078
Miscellaneous	579,172	579,172	440,577	(138,595)
Total Revenues	\$ 16,481,678	\$ 16,481,678	\$ 17,939,250	\$ 1,457,572
Expenditures				
Current				
Human services				
Income maintenance	\$ 4,371,504	\$ 4,371,504	\$ 4,359,879	\$ 11,625
Social services	10,438,946	10,438,946	9,916,173	522,773
Total human services	\$ 14,810,450	\$ 14,810,450	\$ 14,276,052	\$ 534,398
Health	1,881,228	1,881,228	2,279,011	(397,783)
Total Expenditures	\$ 16,691,678	\$ 16,691,678	\$ 16,555,063	\$ 136,615
Excess of Revenues Over (Under) Expenditures	\$ (210,000)	\$ (210,000)	\$ 1,384,187	\$ 1,594,187
Other Financing Sources (Uses)				
Transfers in	10,000	10,000	626,050	616,050
Net Change in Fund Balance	\$ (200,000)	\$ (200,000)	\$ 2,010,237	\$ 2,210,237
Fund Balance - January 1	7,286,413	7,286,413	7,286,413	-
Fund Balance - December 31	\$ 7,086,413	\$ 7,086,413	\$ 9,296,650	\$ 2,210,237

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**CARLTON COUNTY
CARLTON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2014**

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 28.

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, 2014, expenditures exceeded appropriations in the following fund:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund	\$ 18,759,358	\$ 19,670,956	\$ 911,548

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SUPPLEMENTARY INFORMATION

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**CARLTON COUNTY
CARLTON, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

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 Capital Projects Fund is used to account for the expenditure of bond proceeds which were issued to finance the construction of a new human services building.

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**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT B-1

**BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND
DECEMBER 31, 2014**

	Forfeited Tax Special Revenue Fund (Exhibit 3)
<u>Assets</u>	
Cash and pooled investments	\$ 308,180
Accounts receivable	679,648
	987,828
Total Assets	\$ 987,828
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balance</u>	
Liabilities	
Accounts payable	\$ 3,588
Salaries payable	8,559
Due to other funds	273,162
Due to other governments	34,182
	319,491
Total Liabilities	\$ 319,491
Deferred Inflows of Resources	
Unavailable revenue	
Long-term receivable	574,659
Fund Balance	
Assigned to	
Forfeited tax	93,678
	93,678
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 987,828

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Forfeited Tax Special Revenue Fund	Capital Projects Fund	Total (Exhibit 5)
Revenues			
Intergovernmental	\$ 52,014	\$ -	\$ 52,014
Miscellaneous	593,021	-	593,021
	\$ 645,035	\$ -	\$ 645,035
Expenditures			
Current			
Conservation of natural resources	\$ 596,978	\$ -	\$ 596,978
Capital outlay	-	43,470	43,470
	\$ 596,978	\$ 43,470	\$ 640,448
Excess of Revenues Over (Under)			
Expenditures	\$ 48,057	\$ (43,470)	\$ 4,587
Other Financing Sources (Uses)			
Transfers in	\$ -	\$ 213,486	\$ 213,486
Transfers out	(90,484)	(607,432)	(697,916)
	\$ (90,484)	\$ (393,946)	\$ (484,430)
Net Change in Fund Balance	\$ (42,427)	\$ (437,416)	\$ (479,843)
Fund Balance - January 1	136,105	437,416	573,521
Fund Balance - December 31	\$ 93,678	\$ -	\$ 93,678

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ -	\$ -	\$ 52,014	\$ 52,014
Miscellaneous	376,541	376,541	593,021	216,480
Total Revenues	\$ 376,541	\$ 376,541	\$ 645,035	\$ 268,494
Expenditures				
Current				
Conservation of natural resources				
Land use	376,541	376,541	596,978	(220,437)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 48,057	\$ 48,057
Other Financing Sources (Uses)				
Transfers out	-	-	(90,484)	(90,484)
Net Change in Fund Balance	\$ -	\$ -	\$ (42,427)	\$ (42,427)
Fund Balance - January 1	136,105	136,105	136,105	-
Fund Balance - December 31	\$ 136,105	\$ 136,105	\$ 93,678	\$ (42,427)

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT B-4

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,306,950	\$ 1,306,950	\$ 1,277,068	\$ (29,882)
Intergovernmental	180,000	180,000	206,008	26,008
Total Revenues	\$ 1,486,950	\$ 1,486,950	\$ 1,483,076	\$ (3,874)
Expenditures				
Debt service				
Principal	\$ 1,486,950	\$ 1,486,950	\$ 2,580,000	\$ (1,093,050)
Interest	-	-	555,539	(555,539)
Administrative charge	-	-	3,162	(3,162)
Total Expenditures	\$ 1,486,950	\$ 1,486,950	\$ 3,138,701	\$ (1,651,751)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (1,655,625)	\$ (1,655,625)
Other Financing Sources (Uses)				
Transfers out	-	-	(195,977)	(195,977)
Change in Fund Balance	\$ -	\$ -	\$ (1,851,602)	\$ (1,851,602)
Fund Balance - January 1	3,623,420	3,623,420	3,623,420	-
Fund Balance - December 31	\$ 3,623,420	\$ 3,623,420	\$ 1,771,818	\$ (1,851,602)

**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
Arrowhead Health Alliance

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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, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MOTOR VEHICLE REGISTRATION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 4,727,527	\$ 4,727,527	\$ -
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 4,727,527	\$ 4,727,527	\$ -
 <u>EMPLOYEE FLEXIBLE BENEFITS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 83,159	\$ 127,577	\$ 134,034	\$ 76,702
<u>Liabilities</u>				
Accounts payable	\$ 83,159	\$ 127,577	\$ 134,034	\$ 76,702
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 78,862	\$ 5,107,743	\$ 5,119,389	\$ 67,216
<u>Liabilities</u>				
Due to other governments	\$ 78,862	\$ 5,107,743	\$ 5,119,389	\$ 67,216

**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, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>213,825</u>	\$ <u>9,687,549</u>	\$ <u>9,749,506</u>	\$ <u>151,868</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>213,825</u>	\$ <u>9,687,549</u>	\$ <u>9,749,506</u>	\$ <u>151,868</u>
 <u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>176,328</u>	\$ <u>10,191,208</u>	\$ <u>10,251,076</u>	\$ <u>116,460</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>176,328</u>	\$ <u>10,191,208</u>	\$ <u>10,251,076</u>	\$ <u>116,460</u>
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>-</u>	\$ <u>48,070,858</u>	\$ <u>48,070,858</u>	\$ <u>-</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>-</u>	\$ <u>48,070,858</u>	\$ <u>48,070,858</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, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>NORTHEASTERN WASTE ADVISORY COUNCIL</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>1,194</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,194</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>1,194</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,194</u>
 <u>REFUNDING</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>153,295</u>	\$ <u>428,024</u>	\$ <u>401,555</u>	\$ <u>179,764</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>153,295</u>	\$ <u>428,024</u>	\$ <u>401,555</u>	\$ <u>179,764</u>
 <u>COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>672,175</u>	\$ <u>310,964</u>	\$ <u>362,026</u>	\$ <u>621,113</u>
<u>Liabilities</u>				
Accounts payable	\$ 5,471	\$ 4,078	\$ 5,471	\$ 4,078
Salaries payable	7,273	9,482	7,273	9,482
Due to other governments	<u>659,431</u>	<u>297,404</u>	<u>349,282</u>	<u>607,553</u>
Total Liabilities	\$ <u>672,175</u>	\$ <u>310,964</u>	\$ <u>362,026</u>	\$ <u>621,113</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, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>ARROWHEAD HEALTH ALLIANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>205,591</u>	\$ <u>-</u>	\$ <u>205,591</u>	\$ <u>-</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>205,591</u>	\$ <u>-</u>	\$ <u>205,591</u>	\$ <u>-</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>1,584,429</u>	\$ <u>78,651,450</u>	\$ <u>79,021,562</u>	\$ <u>1,214,317</u>
<u>Liabilities</u>				
Accounts payable	\$ 88,630	\$ 4,859,182	\$ 4,867,032	\$ 80,780
Salaries payable	7,273	9,482	7,273	9,482
Due to other governments	<u>1,488,526</u>	<u>73,782,786</u>	<u>74,147,257</u>	<u>1,124,055</u>
Total Liabilities	\$ <u>1,584,429</u>	\$ <u>78,651,450</u>	\$ <u>79,021,562</u>	\$ <u>1,214,317</u>

OTHER SCHEDULE

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**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2014**

Appropriations and Shared Revenue

State

Highway users tax	\$ 9,591,468
County program aid	1,852,570
PERA rate reimbursement	54,851
Disparity reduction aid	371,735
Police aid	159,936
E-911	113,901
Market value credit	153,789
	153,789

Total appropriations and shared revenue **\$ 12,298,250**

Reimbursement for Services

State

Minnesota Department of Human Services	\$ 1,417,693
	1,417,693

Payments

Local

Other local contributions	\$ 199,866
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State

Payments in lieu of taxes	502,021
	502,021

Total payments **\$ 701,887**

Grants

State

Minnesota Department/Board of	
Crime Victim Services	\$ 39,000
Public Safety	22,800
Transportation	70,210
Health	430,315
Natural Resources	287,266
Human Services	2,753,353
Water and Soil Resources	60,124
Office of Environmental Assistance	86,039
Minnesota Pollution Control Agency	49,415
Iron Range Resources and Rehabilitation Board	290,058
	290,058

Total state **\$ 4,088,580**

**CARLTON COUNTY
CARLTON, MINNESOTA**

***EXHIBIT D-1
(Continued)***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2014**

Grants (Continued)

Federal

Department of Agriculture	\$ 621,066
Housing and Urban Development	4,135
Transportation	823,118
Education	2,288
Homeland Security	22,679
Health and Human Services	<u>3,992,039</u>

Total federal grants **\$ 5,465,325**

Total state and federal grants **\$ 9,553,905**

Other Federal

Treasury

Build America Bonds Interest Subsidy	<u>\$ 177,641</u>
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Total Intergovernmental Revenue **\$ 24,149,376**

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**CARLTON COUNTY
CARLTON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **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? **Yes**
- Significant deficiencies identified? **Yes**

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	CFDA #10.561
Airport Improvement Program	CFDA #20.106
Highway Planning and Construction	CFDA #20.205
Temporary Assistance for Needy Families	CFDA #93.558
Medical Assistance Program	CFDA #93.778

The threshold for distinguishing between Types A and B programs was \$300,000.

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 1996-011

Capital Assets

Criteria: GASB Statement 34 requires governments to include capital assets on the Statement of Net Position and to report depreciation expense for those assets on the Statement of Activities. In addition, capital outlay expenditures in a governmental fund's Statement of Revenues, Expenditures, and Changes in Fund Balance are eliminated in the Statement of Activities. Current 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 34, the County must establish accounting policies for capital assets, including capitalization thresholds, useful lives, and the designation of specific general ledger accounting codes to record the purchases and construction costs of capital assets. Capital assets, as defined by GASB Statement 34, include: land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible and intangible assets used in operations and that have initial useful lives

extending beyond a reporting period. The County must establish a capital asset accounting system capable of providing the information needed to comply with the reporting requirements of GASB Statement 34. Information needed for reporting includes capital assets by major asset category, capital outlay expenditures by department and major expenditure function, and depreciation expense by department and major expenditure function.

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

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

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

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

Client's Response:

The County is working to contract with a vendor who will provide assistance to Carlton County in the determination and valuation of the County's capital assets. It is anticipated that the vendor will also assist the County in the establishment of policies and procedures for the implementation and maintenance of a capital asset management system. Although this project has yet to be undertaken, it is the intention of the Carlton County Board of Commissioners that this task should be undertaken during the year 2016.

Finding 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.

Client's Response:

The Carlton County Board of Commissioners is aware of the existing conditions with regard to the segregation of duties. We do and will continue to review the duties and responsibilities of County Staff and to make appropriate changes where necessary and feasible.

Finding 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 on 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.

Client's Response:

The County Auditor will work with the County Board and County Sheriff to include the jail canteen accounts within the general ledger system while maintaining the dedication of the funds for the benefit of the inmates. The County did hire a new Jail Administrator (due to a retirement) and has entered into a contract for Jail vending services; it is hoped that this issue can be resolved in 2016.

Finding 2006-002

Audit Adjustments

Criteria: 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 of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control 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.

Condition: During our audit, we identified material adjustments that resulted in significant changes to the County's financial statements. The County provides cash basis financial statements and prepares some of the modified accrual information necessary to adjust the cash basis financial statements to the modified accrual basis.

Context: The inability to make accrual adjustments or to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: The following audit adjustments were reviewed and approved by the appropriate Carlton County staff and are reflected in the financial statements:

- General Fund - Assets increased by \$771,474, liabilities increased by \$220,588, deferred inflows of resources increased by \$270,150, revenues increased by \$635,282, and expenses increased by \$354,546 to record additional intergovernmental revenues and expenditures.
- Road and Bridge Special Revenue Fund - Due from other governments decreased by \$1,396,768, deferred inflows of resources decreased by \$2,126,381, and revenues increased by \$729,613 for an overstatement of intergovernmental receivables and unavailable revenue.
- Debt Service Fund - Assets increased by \$39,372, liabilities increased by \$35,956, fund balance increased by \$1,927,454, and expenses increased by \$1,924,038 to correct an entry posted by the client to fund balance.

- Audit adjustments were made to adjust the modified accrual financial statements to the accrual basis for the government-wide financial statements. Total assets decreased by \$348,922 due to the elimination of intra-activity accounts. Total liabilities increased by \$15,818,667 due to the recording of long-term debt. Deferred inflows of resources decreased by \$7,816,684 as a result of recognition of revenues deferred at the fund level. These adjustments resulted in a decrease in net position of \$8,350,905. The County's revenues decreased by \$2,394,254, and expenses decreased by \$2,124,634, resulting in an increase in the change in net position of \$269,620.

Cause: County staff did not have the time to prepare all of the information necessary to provide accurate financial statements.

Recommendation: We recommend County staff review the trial balances and journal entries in detail so that, in future audits, this information can be prepared by the County.

Client's Response:

The County Auditor's Office staff will work to 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.

Finding 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: Journal entries made by employees are not reviewed or approved by anyone else.

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 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.

Client's Response:

The County Auditor's Office 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's Office to establish review and approval procedures for all journal entries.

Finding 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 County'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.

Client's Response:

Carlton County will work with the State Auditor's Office staff (and other governmental entities) to establish an accounting policies and procedures manual.

Finding 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.

Client's Response:

The County Board, in conjunction with the IT staff will develop a plan to ensure internal controls are in place so as to reduce the risk associated with the County's computer systems.

Finding 2007-001

Approval of Time Sheets

Criteria: Management is responsible for establishing and maintaining internal control. A basic internal control to help ensure the accurate reporting of payroll transactions in the County's financial records is employee and supervisor signatures on time reports attesting to the validity of time reported as worked.

Condition: The County does not have a policy or procedure addressing who should be approving supervisors' time reports.

Context: Management's approval of time reported as worked is a basic internal control designed to prevent errors and fraudulent time reporting by ensuring that only approved hours of work are paid.

Effect: Unapproved time reports can result in time reporting errors and/or payment of fraudulent claims of hours actually worked.

Cause: The County does not have a policy or procedure addressing who should be approving supervisors' time reports.

Recommendation: We recommend that each time sheet contain two attestations of the hours worked. One attestation should be by the employee and the other should be by the employee's supervisor or other appropriate person.

Client's Response:

The Carlton County Auditor/Treasurer, in conjunction with the County Coordinator (HR Director), did review this matter and made a recommendation to the County Board for action. The Board did acknowledge the recommendation of the Office of the State Auditor, with respect to the approval of 'non-elected' department heads' time reports and determined that it shall be the policy of the Carlton County Board of Commissioners that the 'non-elected' department heads' time reports will be attested to only by the individual 'non-elected' department head.

Finding 2008-001

Other Postemployment Benefits (OPEB)

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

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

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

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

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

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

Client's Response:

Carlton County will work to determine the County's net OPEB liability so as to be GASB 45 compliant.

Finding 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 (GAAP) and U.S. Office of Management and Budget (OMB) Circular A-133. 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 information requested. With the exception of the Human Services Special Revenue Fund, various work papers and schedules necessary to support the County's conversion of its cash basis general ledger to modified accrual and the preparation of the related trial balances and financial statements were provided for audit as they became available between September 21 and October 16, 2015.

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, 2015, single audit deadline.

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

Recommendation: The County Board of 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.

Client's Response:

Carlton County is aware of the situation whereby the County financial statements are not necessarily prepared in a timely fashion in accordance with GAAP and OMB Circular A-133. The County will work to adopt procedures to ensure that the necessary financial information is prepared in a manner that allows our auditors adequate time to complete their audit by the required deadlines.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2013-001

Identification of Federal Awards

Programs: U.S. Department of Transportation's Airport Improvement Program (CFDA No. 20.106) and Highway Planning and Construction (CFDA No. 20.205)

Pass-Through Agency: Minnesota Department of Transportation

Criteria: OMB Circular A-133, Subpart C, § .300, indicates auditee responsibilities include the identification of all federal awards received and expended, and the federal program under which they were received.

Condition: Carlton County did not adequately identify amounts expended for federal awards on the Schedule of Expenditures of Federal Awards (SEFA). During our audit of the SEFA, we identified the following additional expenditures:

- The County under-reported expenditures for the Airport Improvement Program (CFDA No. 20.106) by \$596,216.
- The County under-reported expenditures for the Highway Planning and Construction Grant (CFDA No. 20.205) by \$457,069.

Questioned Costs: None.

Context: In 2014, Carlton County reported federal expenditures in the amount of \$5,695,492.

Effect: The inability to identify and track federal expenditures or to detect significant misstatements in the SEFA increases the likelihood that federal expenditures would not be fairly stated.

Cause: The County erred in its determination and classification of the actual amounts received and expended under these federal programs. The County's procedures and internal controls for identifying federal financial assistance for preparation of its SEFA are inadequate.

Recommendation: We recommend County management develop a process for adequately identifying all federal revenues and accumulating the information needed to prepare the SEFA. Those responsible for compiling the SEFA should understand the components of the SEFA and properly gather the correct information and maintain supporting documentation. For each federal award identified, the County should determine the correct program CFDA title and number, award number and year, federal grantor agency, pass-through agency, and amount received and expended. The County should also reconcile the SEFA amounts to the general ledger and financial statements.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Paul G. Gassert, Carlton County Auditor/Treasurer

Corrective Action Planned:

It is the intent of Carlton County to identify all federal revenues at the time of County Board acceptance of federal grants. It is currently the policy of Carlton County to obtain County Board approval prior to the acceptance of any/all federal grant awards.

Anticipated Completion Date:

December 31, 2015

ITEMS ARISING THIS YEAR

Finding 2014-001

Unsupported Adjustments to Nurse's Time Reports

Program: U.S. Department of Health and Human Services' Temporary Assistance for Needy Families (CDFR No. 93.558)

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Under 2 CFR Part 225, Appendix B, Subsection 8.h.(1), *Support of Salaries and Wages*:

Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

Subsection 8.h.(4) further states that:

Where employees are expected to work on multiple activities or cost objectives, a distribution of their salaries will be supported by personnel activity reports or equivalent documentations which meets the standards of Subsection 8.h.(5) unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency.

Subsection 8.h.(5) requires that personnel activity reports or equivalent documentation must: (1) reflect an after-the-fact distribution of the actual activity of each employee, (2) account for the total activity for which the employee is compensated, and (3) be signed by the employee.

Condition: Our review of time reported under the TANF Home Visits Program detected an instance in which the hours and activity codes reported on the CareFacts nurse's time report were revised by the employee's supervisor. Some of the hours worked were reallocated to activity codes other than the codes originally recorded by the employee. There was no documentation identifying the reasoning for the change in activity codes or whether or not the employee attested to the revised time report after the change. Because of the revision, the employee's original CareFacts time report did not agree with the allocation of payroll expense in the County's labor distribution report.

Questioned Costs: None

Context: Public health nursing staff working on multiple activities record their daily time into CareFacts time reporting software according to pre-defined activity codes. The activity codes identify which County programs an employee's time should be charged to. Signed nursing staff CareFacts time reports support the labor costs charged to federal and state grant programs.

Effect: Unsupported changes to an employee's time report. Federal regulation 2 CFR Part 225, Subsection 8.h.(1), states that payrolls should be documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official. Subsection 8.h.(4) indicates that personnel charges to a federal program must be supported personnel activity reports. A basic internal control in the County's time

reporting system is the attestation of both the employee and supervisor that hours claimed as worked are legitimate. If the activity codes originally reported and attested to by the employee in the time reports are altered, the time report no longer supports the program costs reported in the labor distribution. The reasoning for the change should be supported in the time reports. The employee should indicate their agreement with the revision. The final approved time report documents time claimed and paid as worked is legitimate and is the basis for the payroll costs reported in the labor distribution report.

Cause: Client's past practice. At times, supervisors are required to make legitimate changes to employee time reports to correct posting errors and charge time to proper activity codes. However, they are not required to document the reasoning behind the change or whether or not the employee agreed with the revision.

Recommendation: We recommend that County practice require documenting on the time report that the employee agrees with the revision to the hours charged to nursing services activity codes when revisions are made after the employee has signed and submitted a time report for supervisory approval. This could involve a procedure in which the employee initials and dates the revised time report indicating their agreement.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Paul G. Gassert, Carlton County Auditor/Treasurer

Corrective Action Planned:

It is the intent of Carlton County to require (of staff supervisors) that when legitimate changes to employees' time reports (for the purpose of correcting posting errors and to charge time to proper activity codes), the appropriate supervisory staff will document the reasoning behind the change in time reporting.

Anticipated Completion Date:

December 31, 2015

Finding 2014-002

Documentation of Capital Assets

Program: U.S. Department of Transportation's Airport Improvement Program (CFDA No. 20.106)

Pass-Through Agency: Minnesota Department of Transportation

Criteria: OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. The OMB Circular A-133 May 2014 Compliance Supplement, Part 3, F. Equipment and Real Property Management, states that an entity must maintain proper records for equipment “charged directly to the grant with a useful life of more than one year and an acquisition cost of \$5,000 or more per unit.”

Condition: The County does not have a policy or procedures in place to properly track equipment acquired under this grant in accordance with OMB Circular A-133.

Questioned Costs: None.

Context: The County should have a policy 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 have they 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 OMB Circular A-133.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Paul G. Gassert, Carlton County Auditor/Treasurer

Corrective Action Planned:

It is the intent of Carlton County to establish a record keeping system for capital assets and to further establish formal policies and procedures to track equipment purchased with grant funds in accordance with OMB Circular A-133.

Anticipated Completion Date:

December 31, 2015

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-003

Electronic Funds Transfer Policy

Criteria: The County Board is required by Minn. Stat. § 385.071 to establish policies and procedures for investment and expenditure transactions via electronic funds transfers.

Condition: The County Board has not established written policies and procedures regarding the use of electronic funds transfers.

Context: The County Auditor has developed a draft policy, but it has not yet been approved by the County Board.

Effect: The County is not in compliance with Minn. Stat. § 385.071.

Cause: The County Board has not yet approved the draft policy.

Recommendation: We recommend the County Board establish written policies and procedures for electronic funds transfers as required by Minn. Stat. § 385.071.

Client's Response:

The County has obtained copies of other counties' policies and drafted a policy to fit the needs of Carlton County. This draft policy will be presented to the County Board for their consideration and/or approval.

Finding 1996-004

Unclaimed Funds

Criteria: The Minnesota Unclaimed Property Law requires that uncashed vendor or refund checks be reported to the state after three years. The reporting requirements for unclaimed property and its payment to the Commissioner of the Minnesota Department of Commerce are detailed in Minn. Stat. §§ 345.38-.43.

Condition: The County Auditor/Treasurer has established a system for keeping track of checks to be reported to the Commissioner. However, the County Auditor/Treasurer has not filed any unclaimed property reports with the state or turned over any money to the state. Our review of the County's documentation of unclaimed checks reveals the amount of unclaimed checks not turned over to the state is \$68,192 as of December 31, 2014.

Context: Any person who willfully refuses to pay or deliver abandoned property to the Commissioner under Minn. Stat. § 345.55 shall be guilty of a gross misdemeanor.

Effect: Noncompliance with Minn. Stat. ch. 345.

Cause: County staff are responsible for keeping an updated current file of unclaimed property. The County Auditor/Treasurer is responsible to file required reports with the Commissioner of the Minnesota Department of Commerce and turn over any unclaimed property after three years. The County continues not to comply with this legal requirement.

Recommendation: We recommend the County Auditor/Treasurer file the required unclaimed property reports with the Commissioner of the Minnesota Department of Commerce and turn over any funds required to be remitted to the state.

Client's Response:

The County has established a system of tracking checks to be reported to the Department of Commerce/Unclaimed Property Division. The County will investigate turning these monies over to the state.

Finding 1996-025

Travel Policy

Criteria: Counties are required by Minn. Stat. § 471.661 to "have on record a policy that controls travel outside of the state of Minnesota for . . . elected officials." The policy must be approved by a recorded vote and specify when travel outside of the state is appropriate, applicable expense limits, and procedures for approved travel.

Condition: The County Board 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. Travel claims are submitted on the County's regular voucher form, as there is no separate travel claim form. Department heads approve their own travel claims.

Context: A formal travel policy should clarify the County Board's position regarding travel expenses and would result in uniform treatment of travel claims. The policy could include the following items:

- which expenses are reimbursable,
- which expenses are prohibited,
- who is authorized to approve travel expenses, and
- what type of documentation is required to support expenses.

Effect: Noncompliance with Minn. Stat. § 471.661. Internal controls over travel claim transactions are weak without a standard governing approval, processing, and payment of all types of travel claims incurred by County staff. Also, without a separate travel claim form, it is more difficult to ensure that the type of expense, governmental purpose, documentation, and approval are appropriate.

Cause: A draft travel policy exists, but as of yet, has not been formally approved by the County Board. The County lacks a formal, comprehensive accounting policies and procedures manual that could incorporate a uniform travel policy.

Recommendation: We recommend the County Board comply with Minn. Stat. § 471.661 and establish a formal travel policy incorporating the above items. Travel claims should be approved by someone other than the person submitting the claim.

Client's Response:

The County Board will be considering a formal travel policy. At this time, they have chosen not to take any formal action on a travel policy. The Auditor will again present a draft policy for their review and action.

Finding 2004-001

Publication of Financial Statements

Criteria: The County is required by Minn. Stat. § 375.17 to annually publish its financial statements in a qualified legal newspaper in the County.

Condition: The County Auditor/Treasurer did not publish the financial statements for 2013.

Context: Financial statements have not been published as required under Minn. Stat. § 375.17 for the years 2003 through 2013.

Effect: The County is not in compliance with Minn. Stat. § 375.17.

Cause: The County has limited staffing available that would allow them to meet this requirement and perform its other critical functions.

Recommendation: We recommend the County Auditor/Treasurer publish the County's financial statements annually as required by Minn. Stat. § 375.17.

Client's Response:

As required by Minn. Stat. § 375.15, the Carlton County Auditor will ensure that the financial statements for 2003 through 2014 are published in the County's legal newspaper.

Finding 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 make sure 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.

Client's Response:

Carlton County is working to secure a new (current) collateral agreement with Wells Fargo.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-024

Budgets

Criteria: The County Board should approve a formal budget policy. All budget transfers or amendments that require Board approval under the written policy should be approved by the Board. Approval should be documented in a manner that allows the original Board-approved budget to be reconciled to the final amended budget used for reporting purposes. The minutes should include the amounts of any transfers or budget changes in addition to the explanation for the change. All Board-approved budget amendments should be input in the general ledger system.

Condition: The County Board does not have a formal written budget policy. Under past practice, it has been the informal policy of the Board to approve all line-item budget changes and all budget amendments. These changes do not get reflected in an amended budget in the County's general ledger.

Context: The County Board approves amendments and grants in the Board minutes, but generally does not identify dollar amounts. The original budget is not updated in the general ledger for approved changes, so a final amended budget is not available from the system.

Effect: The original budget is not easily reconcilable to an amended final budget. The approved budget is the legal spending authority of the County. Lack of a procedure to update the general ledger with budget modifications can result in noncompliance with the authorized spending budget for a fiscal period.

Cause: The County is operating under an informal past budgeting practice. A budget policy has been drafted; however, it has not been formally approved by the County Board.

Recommendation: We recommend the Board establish a written budget policy that indicates the following:

- the level of budgetary control at which Board approval is required for any budget transfers or amendments,
- any exceptions to the general policy which would not require Board approval, and
- the budgetary basis on which the budget is adopted.

A standard budget change form could be adopted as part of the budget policy. This form would standardize the process of obtaining a budget amendment and would ensure that all budget changes and amounts are included in the accounts affected by the change. The budget should be amended for any significant changes in revenue sources or spending patterns that occur during the year.

Client's Response:

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

Finding 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.

Client's Response:

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 is 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.

Finding 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 audit, we noted 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: It has been past practice to bring change orders to the Board for approval, but 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.

Client's Response:

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.

C. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the County's government-wide statement of financial position. The County's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in the County's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.



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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, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 24, 2015. 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 generally accepted accounting principles. 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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 1996-011, 2006-002, and 2008-001 to be material weaknesses.

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 1996-012, 1996-018, 2006-003, 2006-004, 2006-005, 2007-001, 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 Political Subdivisions*, 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 that provision was not applicable.

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 Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as items 1996-003, 1996-004, 1996-025, 2004-001, and 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

Also included in the Schedule of Findings and Questioned Costs are management practices comments and an other item for consideration. 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 identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on 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 Political Subdivisions* 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

November 24, 2015

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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) *Circular A-133 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, 2014. 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 the requirements of laws, regulations, contracts, and grants applicable to each of 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

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 OMB Circular A-133, 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.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001 to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001 and 2014-002 to be significant deficiencies.

Carlton County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Carlton County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

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DEPUTY STATE AUDITOR

November 24, 2015

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REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

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, 2014.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014, in accordance with accounting principles generally accepted in the United States of America.

/s/Rebecca Otto

/s/Greg Hierlinger

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GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 24, 2015

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Agriculture			
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		\$ 158,156
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		<u>462,910</u>
Total U.S. Department of Agriculture			<u>\$ 621,066</u>
U.S. Department of Housing and Urban Development			
Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	CDAP-10-0079-O-FY11	<u>\$ 4,135</u>
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Airport Improvement Program	20.106	SP-0904-32, SP-0904-33, SP-0902-49, SP-0902-50, SP-0902-51, and SP-0902-52	\$ 596,216
Highway Planning and Construction	20.205		<u>457,069</u>
Total U.S. Department of Transportation			<u>\$ 1,053,285</u>
U.S. Department of Education			
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board Special Education - Grants for Infants and Families	84.181		<u>\$ 2,288</u>
U.S. Department of Health and Human Services			
Direct Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		\$ 425,820

**CARLTON COUNTY
CARLTON, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Health and Human Services (Continued)			
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board			
Universal Newborn Hearing Screening	93.251		400
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		22,481
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505		102,794
PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - Financed Solely by 2012 Prevention and Public Health Funds	93.531		36,812
Temporary Assistance for Needy Families (TANF)	93.558		34,977
(Total TANF 93.558 \$382,262)			
Maternal and Child Health Services Block Grant to the States	93.994		33,928
Passed Through Koochiching County			
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912		43,406
Passed Through Fond du Lac Tribal and Community College			
Pregnancy Assistance Fund Program	93.500		34,955
Passed Through Minnesota Department of Human Services			
Guardianship Assistance	93.090		86,259
Promoting Safe and Stable Families	93.556		20,479
Temporary Assistance for Needy Families (TANF)	93.558		347,285
(Total TANF 93.558 \$382,262)			
Child Support Enforcement	93.563		861,233
Refugee and Entrant Assistance - State Administered Programs	93.566		2,455
Child Care and Development Block Grant	93.575		14,355
Foster Care - Title IV-E	93.658		297,708
Social Services Block Grant	93.667		285,176
Chafee Foster Care Independence Program	93.674		2,850
Children's Health Insurance Program	93.767		320
Medical Assistance Program	93.778		1,333,666
Block Grants for Community Mental Health Services	93.958		4,680
Total U.S. Department of Health and Human Services			\$ 3,992,039

**CARLTON COUNTY
CARLTON, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012		\$ 4,050
Passed Through Minnesota Department of Public Safety Hazard Mitigation Grant	97.039		<u>18,629</u>
Total U.S. Department of Homeland Security			<u>\$ 22,679</u>
Total Federal Awards			<u><u>\$ 5,695,492</u></u>

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**CARLTON COUNTY
CARLTON, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

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, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 5,465,325
Grants received more than 90 days after year-end, unavailable in 2014	
Airport Improvement Program	270,150
Highway Planning and Construction	204,885
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	1,055,450
Unavailable in 2013, recognized as revenue in 2014	
Airport Improvement Program	(207,120)
Highway Planning and Construction	(37,748)
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	<u>(1,055,450)</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 5,695,492</u>

**CARLTON COUNTY
CARLTON, MINNESOTA**

5. Subrecipients

Of the expenditures presented in the schedule, Carlton County did not provide any federal awards to subrecipients.