

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA
YEAR ENDED DECEMBER 31, 2013

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

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INTRODUCTORY SECTION

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2013**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1 st District	David K. Sorensen	January 2015
2 nd District	Ron Weiss	January 2017
3 rd District	John B. Lerohl, Chair	January 2015
4 th District	Velma Oakland	January 2015
5 th District	Charles Simpson	January 2017
Officers		
Elected:		
Attorney	Michael LaCoursiere	January 2015
Auditor	Robert Schmitz	January 2015
Recorder	Joyce Paquin	January 2015
Sheriff	Mitch Bernstein	January 2015
Treasurer	Nick Knott	January 2015
Appointed:		
Assessor	Nancy Amberson	December 2016
Medical Examiner	Dr. Mary Ann Sens	June 2014
Highway Engineer	Courtney Kleven	May 2014
Veterans Service Officer	Kurtis Ellefson	December 2015
Environmental Services Director	Kurt Casavan	Indefinite
Social Services Board		
Chair	David K. Sorensen	January 2015
Secretary	Gayle Flateland	July 2015
Member	Ron Weiss	January 2017
Member	John Lerohl	January 2015
Member	Patricia Purath	July 2014
Member	Charles Simpson	January 2017
Member	Velma Oakland	January 2015
Director	Kristi Nelson	Indefinite

FINANCIAL SECTION



GOVERNMENTAL AUDIT SERVICES

Colleen Hoffman, Manager
Gordon Dale, CPA
Audrey Swenson, CPA

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Thief River Falls, MN 56701
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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Red Lake County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Red Lake County, Minnesota, as of and for the year ended December 31, 2013, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Red Lake County, Minnesota, as of December 31, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note I and II, Red Lake County has implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which required a change in accounting principles and resulted in adjustments to beginning net position. Our opinion is not modified with respect to this matter.

Other Matters

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

Accompanying Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Red Lake County's basic financial statements. The introductory section, the supplementary information, and the other schedules section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory and other schedules sections have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2014, on our consideration of Red Lake 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 the County's internal control over financial reporting and compliance.

Hoffman, Dale, & Swenson

Hoffman, Dale, & Swenson, PLLC

October 14, 2014

Red Lake County Auditor's Office

**Bob Schmitz, County
Auditor**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The management of Red Lake County offers readers of the County's Financial Statements this narrative overview and analysis of the financial activities of Red Lake County for the fiscal year ended December 31, 2013. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The total net position of governmental activities are \$48,019,356, of which \$38,891,748 is the net investment in capital assets, \$3,450,607 is restricted for specific purposes, and \$5,677,001 is unrestricted. The total net position of governmental activities increased by \$3,211,560 for the year ended December 31, 2013. This is attributed mainly to road construction funded by County State Aid Highway grants.

At the close of 2013, the County's governmental funds reported combined ending fund balances of \$6,724,910 a decrease of \$506,780 from the prior year. Of the total fund balance amount, \$315,088 is non-spendable, \$800,121 is legally or contractually restricted, \$4,438,135 is formally committed for specific purposes, and \$1,171,566 is assigned for specific purposes. The General Fund has no unassigned fund balance. Maintaining an adequate fund balance is necessary to provide County services throughout the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Red Lake County's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector businesses. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

.....
-An Equal Opportunity Employer-

The *Statement of Net Position* presents information on all of the County's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

In the *Statement of Net Position* and the *Statement of Activities*, the County's activities include 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.

The government-wide financial statements can be found as Exhibits 1 and 2 of this report.

Fund Financial Statements

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

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

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

The County reports two governmental fund types: General and Special Revenue. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, the Road and Bridge Special Revenue Fund, and the Social Services Special Revenue Fund, all of which are considered to be major funds. Data from the nonmajor Ditch Special Revenue Fund and the Forfeited Tax Sale Special Revenue Fund are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor funds is provided in combining statements after the notes to the financial statements.

Red Lake County adopts annual budgets for its governmental funds. Budgetary comparison schedules have been provided for the major governmental funds to demonstrate compliance with their budgets.

Fiduciary Funds Fiduciary funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, or other funds. Red Lake County's fiduciary funds consist of 12 agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In addition, the Agency Funds are not reflected in the government-wide financial statements because those resources are not available to support the County's programs. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All fiduciary activities are reported in Statement 3, Combining Statement of Changes in Fiduciary Net Position, All Agency Funds.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 22 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. The County also provides supplementary and other information including combining statements, a ditch balance sheet and a schedule of intergovernmental revenue.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$48,019,356 at the close of 2013. The largest portion of the County's net position (approximately 81 percent) reflects its net investment in capital assets (i.e., land, infrastructure, buildings, and machinery and equipment). It should be noted that this amount is not available for future spending. Approximately seven percent of the County's net position is restricted and 12 percent of the County's net position is unrestricted. The unrestricted net position amount of \$5,677,001 as of December 31, 2013, may be used to meet the County's ongoing obligations to citizens.

The County's overall financial position increased from last year. Total assets increased by \$4,591,965, from the prior year, due to highway construction projects added to construction and various equipment purchases. Total liabilities increased by \$1,380,405, from the prior year, as a result of increased contracts payable and OPEB liability. This resulted in an increased net position of \$3,211,560 from the prior year.

NET POSITION

	Governmental Activities	
	2013	2012 as restated
Current and other assets	\$ 11,057,225	\$ 10,300,786
Special assessments - noncurrent	66,069	77,916
Capital assets	38,891,748	35,044,375
Total assets	\$ 50,015,042	\$ 45,423,077
Other liabilities	\$ 1,808,509	\$ 267,733
Long-term liabilities outstanding	187,177	347,548
Total liabilities	\$ 1,995,686	\$ 615,281

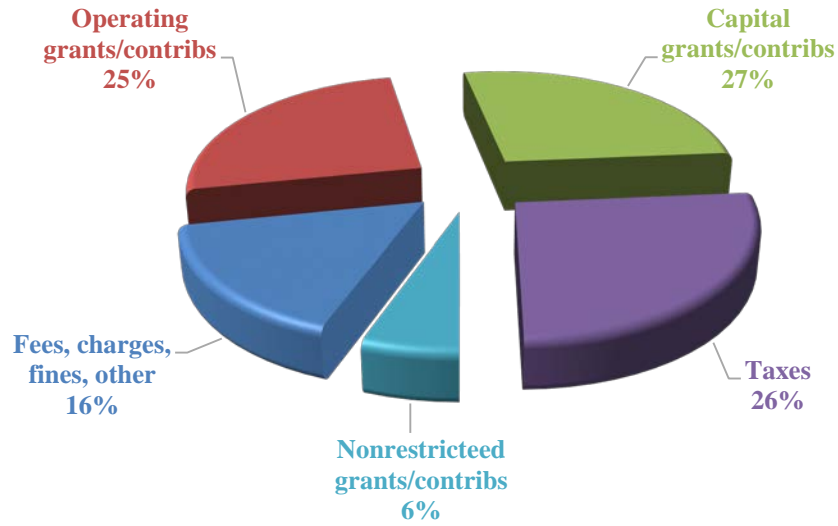
NET POSITION (Continued)

	Governmental Activities	
	2013	2012 as restated
Net position		
Net investment in capital assets	\$ 38,891,748	\$ 35,044,375
Restricted	3,450,607	3,836,048
Unrestricted	5,677,001	5,927,373
 Total net position	 \$ 48,019,356	 \$ 44,807,796

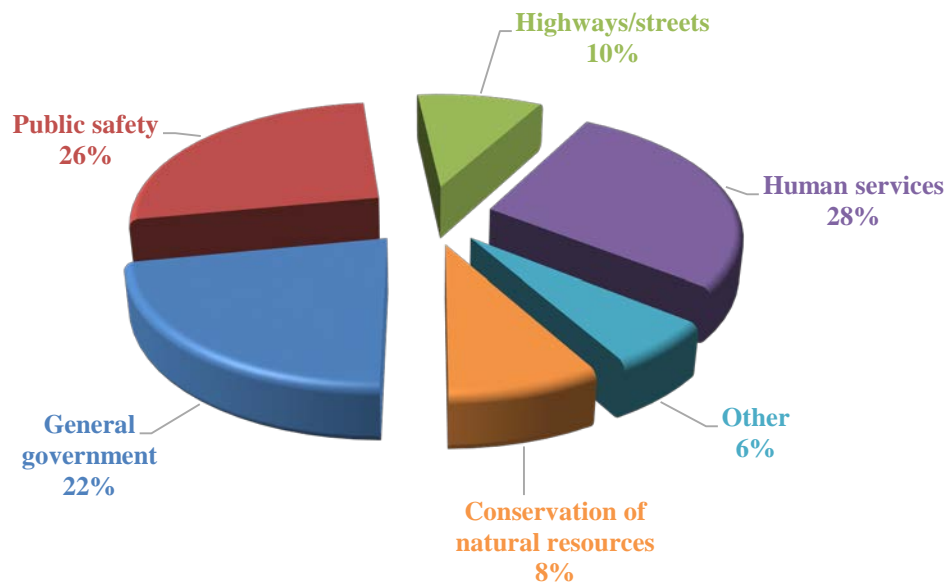
CHANGES IN NET POSITION

	Governmental Activities	
	2013	2012
Revenues		
Program Revenues		
Fees, charges, fines and other	\$ 1,320,766	\$ 1,133,108
Operating grants and contributions	2,046,218	1,702,526
Capital grants and contributions	2,158,053	2,691,166
General Revenues		
Taxes	2,122,332	2,048,794
Grants and contributions not restricted to specific programs	458,030	629,758
Payments in lieu of taxes	10,665	9,363
Investment earnings	(186,103)	117,946
 Total revenues	 \$ 7,929,961	 \$ 8,332,661
Expenses		
General government	\$ 1,035,018	\$ 969,441
Public safety	1,246,261	1,272,339
Highways and streets	454,813	2,913,067
Sanitation	112,874	135,124
Human services	1,311,249	1,221,036
Health	97,054	43,888
Culture and recreation	72,422	97,613
Conservation of natural resources	387,910	409,715
Economic development	800	2,329
 Total expenses	 \$ 4,718,401	 \$ 7,064,552
Increase (decrease)	\$ 3,211,560	\$ 1,268,109
Net position, January 1, as previously reported	-	40,660,408
Prior period adjustment	-	2,879,279
Net position, January 1, as restated	44,807,796	43,539,687
 Net position, December 31	 \$ 48,019,356	 \$ 44,807,796

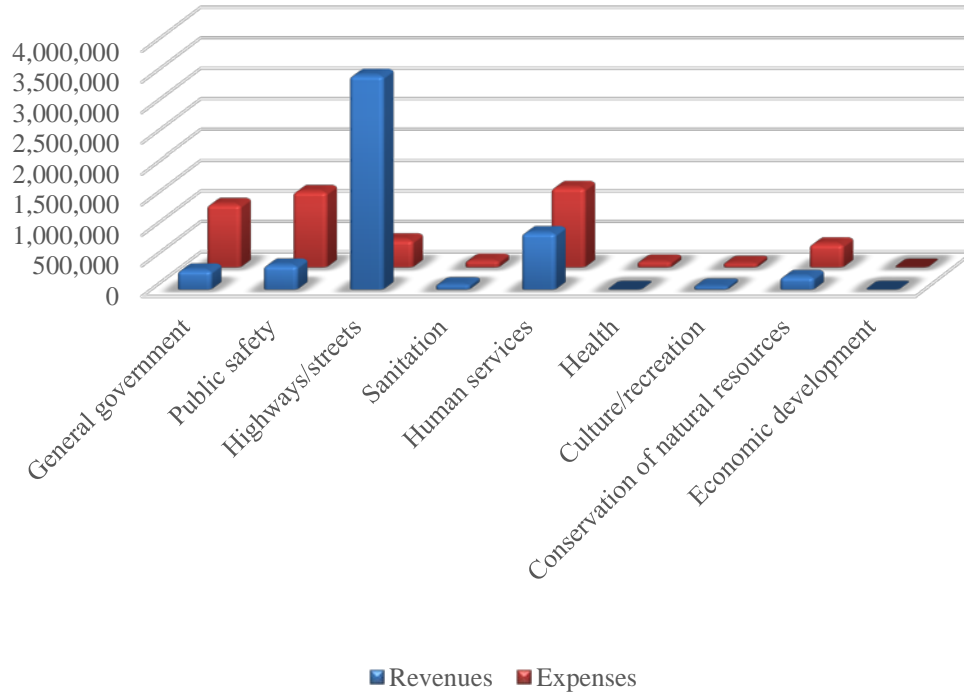
Revenues by Source



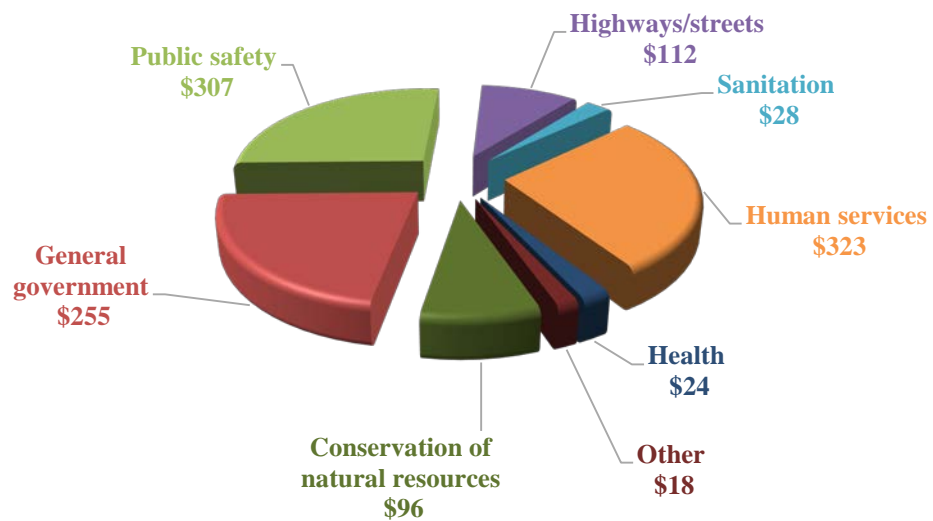
Expenses by Function



Program Revenues & Expenses



Expenditures Per Capita 4,057 Population as of July 1, 2013



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, with a focus on short-term inflows, outflows, and balances of spendable resources. In particular, unrestricted fund balance may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year.

Governmental Funds

At the end of 2013, the County's governmental funds reported combined ending fund balances of \$6,724,910. Of this amount, approximately five percent constitutes non-spendable fund balance, 12 percent constitutes legally or contractually restricted fund balance, 66 percent constitutes formally committed fund balance, and 17 percent constitutes specifically assigned fund balance.

The General Fund is the operating fund of the County. At the end of the current fiscal year, the General Fund's total fund balance was \$3,446,982. The General Fund's non-spendable fund balance was \$0, restricted fund balance was \$268,975, and committed fund balance was \$3,178,007. As a measure of the General Fund's liquidity, it is useful to compare both unrestricted fund balance and total fund balance to total fund expenditures for 2013. Unrestricted fund balance represents 109 percent of total General Fund expenditures, while total fund balance represents 119 percent of that same amount.

In 2013, the fund balance amount in the General Fund decreased by \$466,135, as a result of planned & unplanned use of reserves, and a 34 percent decrease in County Program Aid.

The fund balance of the Road and Bridge Special Revenue Fund decreased by \$186,212 in 2013 due to road construction projects.

The fund balance of the Social Services Special Revenue Fund increased \$83,704 from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the original budget as approved for 2013.

Actual revenues were less than overall final budgeted revenues by \$285,246, with the largest negative variance in investment earnings. Actual expenditures were more than overall final budgeted expenditures by \$23,860.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2013, amounted to \$38,891,748 (net of accumulated depreciation). The total increase in the County's investment in capital assets for the current fiscal year was 11 percent. This was primarily due to completed highway construction projects added to construction in progress and various equipment purchases.

	Governmental Activities	
	2013	2012
Land	\$ 230,801	\$ 230,801
Construction in progress	2,359,061	-
Infrastructure	35,095,811	33,597,918
Buildings and improvements	194,126	217,916
Machinery and equipment	1,011,949	997,740
Total capital assets	\$ 38,891,748	\$ 35,044,375

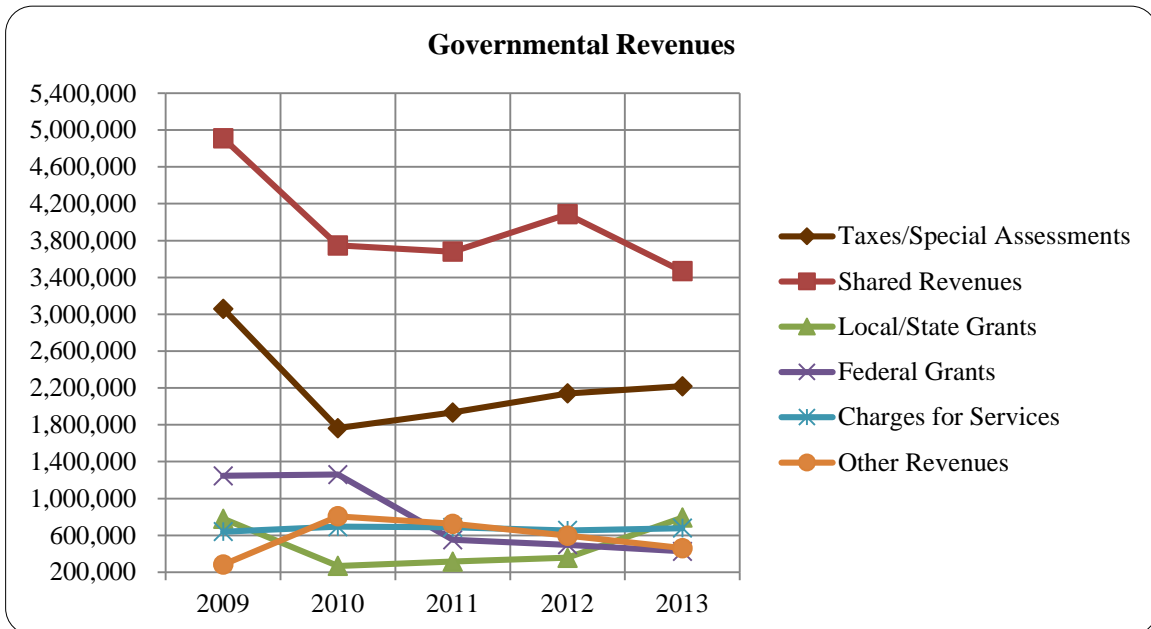
Additional information on the County’s capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, Red Lake County had no debt. The County has no current bond rating as a result of having no debt.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

- The County depends on financial resources flowing from, or associated with, both the Federal Government and the State of Minnesota. Because of this dependency, the County is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities. The five-year analysis below focuses on the revenues of the County’s governmental funds taken from Exhibit 5 and the Schedule of Intergovernmental Revenue.



- Red Lake County's unemployment rate was 5.1 percent as of December, 2013. This is higher than the statewide rate of 4.7 percent and lower than the national average rate of 6.5 percent.
- Red Lake County's population at July 1, 2013 was 4,057, a decrease of 32 since 2010. This ranks Red Lake County 85th of 87 in the State of Minnesota.
- On December 23, 2013, Red Lake County set its 2014 revenue and expenditure budgets.
- The County is concerned about unfunded mandates and the reduction in County Program Aid, while attempting to be as fiscally conservative as possible.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of Red Lake County for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Red Lake County Auditor, Red Lake County Courthouse, P.O. Box 367, Red Lake Falls, Minnesota 56750.

BASIC FINANCIAL STATEMENTS

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2013**

<u>Assets</u>	<u>Governmental Activities</u>
Cash and pooled investments	\$ 7,123,854
Cash with fiscal agent	83,208
Investments	776,098
Taxes receivable - prior	51,161
Special assessments receivable - prior	1,155
Accounts receivable	5,293
Accrued interest receivable	12,874
Due from other governments	2,682,371
Loans receivable	6,123
Inventories	315,088
Special assessments - noncurrent	66,069
Capital assets	
Non-depreciable	2,589,862
Depreciable - net of accumulated depreciation	36,301,886
Total Assets	\$ 50,015,042
<u>Liabilities</u>	
Accounts payable	\$ 37,483
Salaries payable	63,190
Contracts payable	1,469,989
Due to other governments	63,394
Long-term liabilities	
Due within one year	174,453
Due in more than one year	187,177
Total Liabilities	\$ 1,995,686
<u>Net Position</u>	
Net investment in capital assets	\$ 38,891,748
Amounts restricted for	
General government	36,602
Public safety	24,476
Highways and streets	2,707,049
Conservation of natural resources	531,023
Economic development	151,457
Unrestricted amounts	5,677,001
Total Net Position	\$ 48,019,356

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Fees, Charges, Fines and Other	Operating Grants and Contributions	Capital Grants and Contributions	
Functions/Programs					
Governmental activities					
General government	\$ 1,035,018	\$ 286,327	\$ 35,966	\$ -	\$ (712,725)
Public safety	1,246,261	221,903	181,465	-	(842,893)
Highways and streets	454,813	246,690	1,095,629	2,158,053	3,045,559
Sanitation	112,874	30,625	55,950	-	(26,299)
Human services	1,311,249	460,264	474,565	-	(376,420)
Health	97,054	-	-	-	(97,054)
Culture and recreation	72,422	-	60,237	-	(12,185)
Conservation of natural resources	387,910	74,957	142,406	-	(170,547)
Economic development	800	-	-	-	(800)
Total governmental activities	\$ 4,718,401	\$ 1,320,766	\$ 2,046,218	\$ 2,158,053	\$ 806,636
General revenues					
Property taxes					\$ 2,119,171
Gravel tax					3,161
Grants and contributions not restricted to specific programs					458,030
Payments in lieu of taxes					10,665
Investment earnings					(186,103)
Total general revenues					\$ 2,404,924
Change in net position					\$ 3,211,560
Net position - January 1, as previously reported					\$ 41,928,517
Prior period adjustment					2,879,279
Net position - January 1, as restated					\$ 44,807,796
Net position - December 31					\$ 48,019,356

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	<u>General Fund</u>	<u>Road and Bridge Special Revenue Fund</u>	<u>Social Services Special Revenue Fund</u>	<u>Nonmajor Special Revenue Funds (Statement 1)</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Cash and pooled investments	\$ 3,203,573	\$ 2,279,001	\$ 1,118,756	\$ 522,524	\$ 7,123,854
Cash with fiscal agent	83,208	-	-	-	83,208
Investments	75,238	700,860	-	-	776,098
Taxes receivable - prior	32,132	10,739	8,290	-	51,161
Special assessments receivable - prior	-	-	-	1,155	1,155
Accounts receivable	1,740	3,553	-	-	5,293
Accrued interest receivable	12,006	868	-	-	12,874
Due from other funds	2,407	2,579	-	-	4,986
Due from other governments	98,112	2,418,602	145,933	19,724	2,682,371
Loans receivable	6,123	-	-	-	6,123
Inventories	-	315,088	-	-	315,088
Special assessments - noncurrent	-	-	-	66,069	66,069
Total Assets	\$ 3,514,539	\$ 5,731,290	\$ 1,272,979	\$ 609,472	\$ 11,128,280
<u>Liabilities, Deferred Inflows and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 4,568	\$ 12,742	\$ 15,133	\$ 5,040	\$ 37,483
Salaries payable	28,676	18,736	15,778	-	63,190
Due to other funds	2,579	-	-	2,407	4,986
Due to other governments	255	597	58,887	3,655	63,394
Contracts payable	-	1,469,989	-	-	1,469,989
Total Liabilities	\$ 36,078	\$ 1,502,064	\$ 89,798	\$ 11,102	\$ 1,639,042
Deferred Inflows					
Taxes	\$ 25,356	\$ 8,474	\$ 6,542	\$ -	\$ 40,372
Special assessments	-	-	-	67,224	67,224
Loans	6,123	-	-	-	6,123
County State Aid Highway Allotment	-	2,650,609	-	-	2,650,609
Total Deferred Inflows	\$ 31,479	\$ 2,659,083	\$ 6,542	\$ 67,224	\$ 2,764,328

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	<u>General Fund</u>	<u>Road and Bridge Special Revenue Fund</u>	<u>Social Services Special Revenue Fund</u>	<u>Nonmajor Special Revenue Funds (Statement 1)</u>	<u>Total Governmental Funds</u>
Fund Balances					
Non-spendable					
Inventories	\$ -	\$ 315,088	\$ -	\$ -	\$ 315,088
Restricted for					
Conservation of natural resources	-	-	-	531,146	531,146
Enhanced 911	21,359	-	-	-	21,359
Gravel pit restoration	56,440	-	-	-	56,440
Help America Vote Act	1,857	-	-	-	1,857
Housing rehabilitation	83,208	-	-	-	83,208
Landslide acquisition	68,249	-	-	-	68,249
Recorder's equipment	34,745	-	-	-	34,745
Sheriff's forfeited property	3,117	-	-	-	3,117
Committed to					
Ambulance	61,834	-	-	-	61,834
Building improvements - Courthouse	1,000,000	-	-	-	1,000,000
Building improvements - Social Services	-	-	100,000	-	100,000
Corrections	1,000,000	-	-	-	1,000,000
Courthouse equipment	4,500	-	-	-	4,500
Courthouse replacement	690,060	-	-	-	690,060
Environmental/Recycling	366,161	-	-	-	366,161
Environmental equipment	3,000	-	-	-	3,000
Road and bridge equipment	-	1,160,128	-	-	1,160,128
Extension pamphlets	415	-	-	-	415
Good neighbor	30	-	-	-	30
Sheriff's contingent fund	1,483	-	-	-	1,483
Solid waste	40,000	-	-	-	40,000
Traffic diversion	10,524	-	-	-	10,524
Assigned to					
Highways and streets	-	94,927	-	-	94,927
Social services	-	-	1,076,639	-	1,076,639
Total Fund Balances	\$ 3,446,982	\$ 1,570,143	\$ 1,176,639	\$ 531,146	\$ 6,724,910
Total Liabilities, Deferred Inflows and Fund Balances	\$ 3,514,539	\$ 5,731,290	\$ 1,272,979	\$ 609,472	\$ 11,128,280

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013**

Fund balances - total governmental funds (Exhibit 3)	\$ 6,724,910
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	38,891,748
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	2,764,328
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences payable	\$ (192,837)
Other post employment benefits	(168,793)
	<u>(361,630)</u>
Net position of governmental activities (Exhibit 1)	<u>\$ 48,019,356</u>

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General Fund	Road and Bridge Special Revenue Fund	Social Services Special Revenue Fund	Nonmajor Special Revenue Funds (Statement 2)	Total Governmental Funds
Revenues					
Taxes	\$ 1,336,542	\$ 437,690	\$ 337,776	\$ -	\$ 2,112,008
Special assessments	-	-	-	95,961	95,961
Licenses and permits	1,340	-	-	-	1,340
Intergovernmental	694,396	3,456,967	546,417	-	4,697,780
Charges for services	296,183	226,157	137,562	18,065	677,967
Investment earnings	(191,689)	5,586	-	-	(186,103)
Land and timber sales	-	-	-	6,000	6,000
Miscellaneous	296,269	20,533	322,702	455	639,959
Total Revenues	\$ 2,433,041	\$ 4,146,933	\$ 1,344,457	\$ 120,481	\$ 8,044,912
Expenditures					
Current					
General government	\$ 1,020,620	\$ -	\$ -	\$ -	\$ 1,020,620
Public safety	1,186,346	-	-	-	1,186,346
Highways and streets	-	4,247,607	-	-	4,247,607
Sanitation	109,576	-	-	-	109,576
Human services	17,969	-	1,260,753	-	1,278,722
Health	97,054	-	-	-	97,054
Culture and recreation	72,422	-	-	-	72,422
Conservation of natural resources	337,425	-	-	49,939	387,364
Economic development	800	-	-	-	800
Debt service					
Interest	-	-	-	546	546
Capital outlay					
Public safety	39,981	-	-	-	39,981
Highways and streets	-	178,608	-	-	178,608
Sanitation	25,116	-	-	-	25,116
Total Expenditures	\$ 2,907,309	\$ 4,426,215	\$ 1,260,753	\$ 50,485	\$ 8,644,762
Excess of Revenues Over (Under) Expenditures	\$ (474,268)	\$ (279,282)	\$ 83,704	\$ 69,996	\$ (599,850)
Other Financing Sources (Uses)					
Transfers in	\$ 8,133	\$ -	\$ -	\$ -	\$ 8,133
Transfers out	-	-	-	(8,133)	(8,133)
Total Other Financing Sources (Uses)	\$ 8,133	\$ -	\$ -	\$ (8,133)	\$ -
Net Change in Fund Balance	\$ (466,135)	\$ (279,282)	\$ 83,704	\$ 61,863	\$ (599,850)
Fund Balance - January 1	3,913,117	1,756,355	1,092,935	469,283	7,231,690
Increase (decrease) in inventories	-	93,070	-	-	93,070
Fund Balance - December 31	\$ 3,446,982	\$ 1,570,143	\$ 1,176,639	\$ 531,146	\$ 6,724,910

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Net change in fund balances - total governmental funds (Exhibit 5)	\$	(599,850)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> <p>Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Expenditures for general capital assets and infrastructure	\$ 4,984,866	
Current year depreciation	(1,084,788)	
Net book value of disposed assets	(52,705)	3,847,373
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.</p>		
Change in deferred inflows		(114,951)
<p>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.</p>		
Change in		
Inventories	\$ 93,070	
Compensated absences payable	3,868	
Other post-employment benefits	(17,950)	78,988
Change in net position of governmental activities (Exhibit 2)	\$	<u>3,211,560</u>

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2013**

	<u>Agency (Statement 3)</u>
<u>Assets</u>	
Cash and pooled investments	\$ 133,647
Due from other funds	500
Due from other governments	<u>154</u>
Total Assets	<u>\$ 134,301</u>
<u>Liabilities</u>	
Accounts payable	\$ 698
Due to other funds	500
Due to other governments	<u>133,103</u>
Total Liabilities	<u>\$ 134,301</u>

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

I. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

Red Lake County was established December 24, 1896, and has the powers, duties, and privileges granted counties by state law, codified in Minnesota Statutes, Chapter 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Auditor, elected on a County-wide basis, serves as the clerk of the Board but has no vote.

The Social Services Board governs the activities of the Social Services Department and consists of seven members: five County Commissioners and two lay members appointed by the Commissioners and approved by the Minnesota Department of Human Services.

The County participates in joint ventures and related and jointly-governed organizations which are described in Notes section VI, subdivisions C, D and E, respectively.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) include the financial activities of the overall County government, except for the fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities.

In the government-wide statement of net position, the totals are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, charges, and fines paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

I. 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. 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 aggregated and 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 and reports all financial resources of the general government not accounted for in another fund.

The Road and Bridge Special Revenue Fund is used to account for and report 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. Financing is provided by annual tax levy, intergovernmental revenues, and charges for services restricted, committed and assigned for various highways and streets purposes.

The Social Services Special Revenue Fund is used to account for and report financial services provided to persons receiving public assistance. Financing is provided by annual tax levy and intergovernmental revenues committed and assigned for various social services purposes.

Additionally, the County reports the following fund types:

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

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

C. Measurement Focus and Basis of Accounting

The government-wide 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. 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. The County considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual.

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

I. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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.

As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements.

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2013, based on market prices. Pursuant to Minnesota Statute, § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Pooled investment earnings for 2013 were \$(191,715). Total investment earnings for 2013 were \$(186,103), as a result of a loss in market value of the County's investments.

2. Receivables and Payables

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

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

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

All receivables are shown net of an allowance for uncollectible amounts, if applicable.

3. Inventories

All inventories are valued at cost using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

Inventories, as reported in the fund financial statements, are offset by a fund balance account to indicate that they do not constitute available spendable resources.

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity (Continued)

4. Capital Assets

Capital assets, which include land, infrastructure (e.g., roads, bridges, and similar items), buildings and improvements, and machinery and equipment, are reported in the applicable government-wide financial statements. Capital assets have initial useful lives extending beyond two years and a dollar amount for capitalization per asset of \$5,000, except all land and construction in progress which is capitalized regardless of cost. Capital assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extended the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Infrastructure	50-75
Buildings and improvements	30
Machinery and equipment	5

5. Deferred Outflows and Inflows

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 a consumption of net position that applies to future period(s) and will not be recognized as an outflow of resources (expenditure) until then. Currently, the County has no items that qualify for reporting in this category.

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 represents an acquisition of net position by the County that is applicable to a future reporting period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County's deferred inflows of resources arise only under a modified basis of accounting that qualifies for reporting in this category. Accordingly, deferred inflows of resources are reported only in the governmental funds balance sheet, and recognized as an inflow of resources in the period that the amounts become available.

6. Employee Benefits

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual vacation 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.

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

6. Employee Benefits (Continued)

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 uses the alternative method of valuation to determine its Other Post-Employment Benefit liability.

7. Net Position and Fund Balance

Certain funds of the County are classified as restricted net position on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

In the fund financial statements, the County classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent because it is either not in spendable form or legally or contractually required to be maintained intact.

Restricted – includes fund balance amounts that are constrained for specific purposes which are either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes imposed by resolution of the County Board and do not lapse at year-end. To remove the constraint on specified use of committed resources the County Board shall pass a resolution.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither restricted nor committed. The County Board has delegated the authority to assign and remove assignments of fund balance amounts for specified purposes to the County Auditor.

Unassigned – includes positive fund balance within the General Fund, which has not been classified within the above mentioned categories, and negative fund balances in other governmental funds. Red Lake County has no unassigned fund balances for the year ending December 31, 2013.

The County will maintain an unrestricted fund balance in the General Fund of an amount not less than 40 percent of next year's budgeted expenditures of the General Fund. Unrestricted fund balance can be "spent down" if there is an anticipated budget shortfall in excess of zero dollars. If spending unrestricted fund balance in designated circumstances

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

7. Net Position and Fund Balance (Continued)

has reduced unrestricted fund balance to a point below the minimum targeted level, as noted above, the replenishment will be determined by the County Board within a three-year period.

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. The County Board will set aside amounts by resolution as deemed necessary that can only be expended in the event of a natural disaster that exists as the need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the County's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

8. 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, liabilities, and deferred inflows, and disclosure of contingent amounts 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.

9. Account Balance Reclassifications

Several account balances were reclassified for the year ended December 31, 2012, as previously reported. These reclassifications, due to the implementation of GASB Statement 65, were required in order to be consistent with the current year's presentation, and must be considered when comparing the financial statements of this report with those of prior reports.

10. Comparative Data

Comparative data has not been provided due to the implementation of GASB 65, however, comparative information may be provided in future years when prior year information is available.

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

II. Change in Accounting Principles

Effective January 1, 2013, the County implemented GASB Statement 65, which required a change in accounting principles and resulted in adjustments to beginning net position. The following table outlines the changes in net position as reported on the County's financial statements:

	Governmental Activities
Net position, December 31, 2012, as previously reported	\$ 41,928,517
Prior period adjustments	
Taxes	30,048
Special assessments	79,017
Loans	10,623
County State Aid Highway Allotment	2,759,591
Net position, January 1, 2013, as restated	\$ 44,807,796

III. Stewardship, Compliance, and Accountability

A. Land Management

The County manages approximately 394 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.

IV. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliations of the County's total deposits and investments to the basic financial statements, as of December 31, 2013, are as follows:

Cash and pooled investments	\$ 7,123,854
Cash with fiscal agent	83,208
Investments	776,098
Fiduciary funds cash and pooled investments	133,647
Total cash and investments	\$ 8,116,807
Deposits	\$ 987,280
Cash on hand	715
Investments	7,128,812
Total deposits, cash on hand, and investments	\$ 8,116,807

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Deposits

Minnesota Statutes, §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board. Minnesota Statute, § 118A.03 requires that all County deposits be covered by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest 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, revenue obligations rated "AA" or better; irrevocable standard 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 deposit policy for custodial credit risk. As of December 31, 2013, the County's deposits were not exposed to custodial credit risk.

Investments

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

- (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 Minnesota Statute, § 118A.04, subdivision 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and 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

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Investments (Continued)

(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. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

At December 31, 2013, the County had the following investments and maturities:

	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>5+ Years</u>
Federal Home Loan Bank	\$ 2,576,814	\$ -	\$ -	\$ 2,576,814
Federal Home Loan Mortgage Corporation	17,762	-	-	17,762
Mutual Funds	2,148,207	2,148,207	-	-
Negotiable Certificates of Deposit	1,430,862	49,853	894,662	486,347
Cash/Money Market	<u>955,167</u>	<u>955,167</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 7,128,812</u>	<u>\$ 3,153,227</u>	<u>\$ 894,662</u>	<u>\$ 3,080,923</u>
	100%	44%	13%	43%

Credit Risk

Generally, a 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 policy to invest only in securities that meet the ratings requirements set by state statute.

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Investments

Credit Risk (Continued)

The County's exposure to credit risk as of December 31, 2013, is as follows:

	S & P Rating	Fair Value
Federal Home Loan Bank	AAA	\$ 2,576,814
Federal Home Loan Mortgage Corporation - FHR	N/R	17,762
Mutual Funds	N/R	2,148,207
Negotiable Certificates of Deposit	N/A	1,430,862
Cash/Money Market	N/A	955,167
		\$ 7,128,812

N/R – not rated

N/A – not applicable

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 that are in the possession of an outside party. The County does not have a policy on custodial credit risk. Some brokers have excess SIPC coverage which may mitigate all or part of custodial credit risk. At December 31, 2013, the following investments may be subject to custodial credit risk:

Federal Home Loan Mortgage Corporation	\$ 16,089
Federal Home Bank Loan	1,991,547
Mutual Funds	1,945,828
Money Market	853,911
	\$ 4,807,375

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer, excluding U.S. guaranteed investments, investment pools, and mutual funds.

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Investments

Concentration of Credit Risk (Continued)

Investments in any one issuer that represent five percent or more of the County's investments are:

<u>Issuer</u>	<u>Reported Amount</u>	
Federal Home Loan Bank	\$ 2,576,814	36%

2. Receivables

Receivables as of December 31, 2013, for the County's governmental activities, including any applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Taxes	\$ 51,161	\$ -
Special assessments	67,224	66,069
Accounts	5,293	-
Accrued interest	12,874	-
Due from other governments	2,682,371	-
Loans	6,123	-
Total	<u>\$ 2,825,046</u>	<u>\$ 66,069</u>

3. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 230,801	\$ -	\$ -	\$ 230,801
Construction in progress	-	2,359,061	-	2,359,061
Total capital assets not depreciated	\$ 230,801	\$ 2,359,061	\$ -	\$ 2,589,862
Capital assets being depreciated				
Infrastructure	\$ 45,851,164	\$ 2,382,100	\$ -	\$ 48,233,264
Buildings and improvements	1,228,688	-	-	1,228,688
Machinery and equipment	2,981,259	243,705	238,761	2,986,203
Total capital assets being depreciated	\$ 50,061,111	\$ 2,625,805	\$ 238,761	\$ 52,448,155
Less: accumulated depreciation for				
Infrastructure	\$ 12,253,246	\$ 884,207	\$ -	\$ 13,137,453
Buildings and improvements	1,010,772	23,790	-	1,034,562
Machinery and equipment	1,983,519	176,791	186,056	1,974,254
Total accumulated depreciation	\$ 15,247,537	\$ 1,084,788	\$ 186,056	\$ 16,146,269
Total capital assets, depreciated, net	\$ 34,813,574	\$ 1,541,017	\$ 52,705	\$ 36,301,886
Governmental Activities				
Capital Assets, Net	<u>\$ 35,044,375</u>	<u>\$ 3,900,078</u>	<u>\$ 52,705</u>	<u>\$ 38,891,748</u>

Depreciation Expense

Depreciation expense was charged to functions of the County as follows:

General government	\$ 8,240
Public safety	57,935
Highways and streets, including depreciation of infrastructure assets	996,958
Human services	18,777
Sanitation	2,878
Total Depreciation Expense	<u>\$ 1,084,788</u>

Construction Contracts

The County has active construction contracts as of December 31, 2013. The contracts include the following:

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Construction Contracts (Continued)

	Spent-to-Date	Remaining Contracts
Governmental activities		
Highways and streets	\$ -	\$ 1,118,784

Construction contracts are being financed by County taxes and intergovernmental revenue from local, state, and federal agencies.

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2013, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	
General Fund	Other Governmental	\$ 2,407	Forfeited tax settlement
Road and Bridge Special Revenue Fund	General Fund	2,579	Charges for services
Total Due To/From Other Funds		\$ 4,986	

Interfund Transfers

Interfund transfers for the year ended December 31, 2013, consisted of the following operating transfer:

Transfer to General Fund from Other Governmental	\$ 2,368	Loan reimbursement
Transfer to General Fund from Other Governmental	5,765	Forfeited tax sale proceeds
	\$ 8,133	

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

IV. Detailed Notes on All Funds (Continued)

C. Liabilities

Compensated Absences

Under the County's personnel policies and union contracts, employees are granted vacation in varying amounts based on their length of service and hours worked. Vacation leave accrual varies from 9.6 to 24 days per year. Sick leave accrual varies from 12 to 20 days per year. Leave may be accumulated to a maximum of 33.75 days of vacation and 64 to 112.5 days sick leave under the County's employment policy and union contracts. For the governmental activities, compensated absences are generally liquidated by the General Fund, the Road and Bridge Special Revenue Fund, and the Social Services Special Revenue Fund.

Unused compensatory time, accumulated vacation and vested sick leave are paid to employees upon termination. After 15 years of continuous service with the County, eligible employees will receive a percentage of their accumulated sick leave of up to a maximum of 95.63 days upon resignation or retirement in good standing as severance pay. Unvested sick leave, approximately \$157,422 at December 31, 2013, is available to employees in the event of illness-related absences and is not paid to them at termination.

Changes in Long-Term Liabilities

Long-term liability for activity for the governmental activities for the year ended December 31, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
OPEB Liability	\$ 150,843	\$ 17,950	\$ -	\$ 168,793	\$ -
Compensated Absences	196,705	177,940	181,808	192,837	174,453
	<u>\$ 347,548</u>	<u>\$ 195,890</u>	<u>\$ 181,808</u>	<u>\$ 361,630</u>	<u>\$ 174,453</u>

V. Pension Plans and Other Post-Employment Benefits

Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of the County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund and the Public Employee's Police and Fire Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

Public 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. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund.

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

V. Pension Plans and Other Post-Employment Benefits

Defined Benefit Plans

Plan Description (Continued)

The 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 and vest after three years of credited service. The 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.

Two methods are used to compute benefits for 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 year thereafter. 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 successive year. Using 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 percent for each year of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, and all Public Employees Police and Fire Fund members, a full annuity is available when age plus years of service equal 90. 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.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund and the Public Employees Police and Fire 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.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. 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. Public 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 2013. Public Employees Police and Fire Fund members were required to contribute 9.60 percent of their annual covered salary in 2013. The contribution rate in the Public Employees Police and Fire Fund increased in 2014 to 10.20 percent.

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

V. Pension Plans and Other Post-Employment Benefits

Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2013 and 2014:

	2013	2014
Public Employees Retirement Fund		
Basic Plan Members	11.78%	11.78%
Coordinated Plan Members	7.25%	7.25%
Public Employees Police and Fire Fund	14.40%	15.30%

The County's contributions for the years ending December 31, 2013, 2012, and 2011, for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund
2013	\$ 139,568	\$ 57,912
2012	\$ 132,261	\$ 58,575
2011	\$ 128,548	\$ 55,170

These amounts equal the contractually required contributions for each year as set by state statute.

Defined Contribution Plan

Six employees of Red Lake County are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA in accordance with Minnesota Statute, Chapter 353D. 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. Minnesota Statute, § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five 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.

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

V. Pension Plans and Other Post-Employment Benefits

Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2013, were:

	Employee	Employer
Contribution amount	\$ 2,317	\$ 2,317
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

Other Post-Employment Benefits (OPEB)

Plan Description

Red Lake County provides a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides for retirees as required by Minnesota Statute § 471.61, subdivision 2b. The retiree healthcare plan does not issue a publicly available financial report.

Funding Policy

The contribution requirements of the plan and the County are established and may be amended by the Red Lake County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This post-employment benefit is funded on a pay-as-you-go basis usually paying retiree benefits out of the General Fund. For 2013, there were approximately 40 participants in the plan, with no retirees.

Annual OPEB Cost and Net OPEB Obligation

The County's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer* (ARC). The County has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the retiree health plan.

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

V. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

Annual Required Contribution	\$	20,504
Interest on net OPEB obligation		3,032
Adjustments to Annual Required Contribution		<u>(5,586)</u>
Annual OPEB cost (expense)	\$	17,950
Contributions made		<u>-</u>
Increase in net OPEB obligation	\$	17,950
Net OPEB Obligation - January 1, 2013		<u>150,843</u>
Net OPEB Obligation - December 31, 2013	\$	<u><u>168,793</u></u>

The County's annual OPEB cost for December 31, 2013, was \$20,504. The percentage of annual OPEB cost contributed to the plan was zero percent, and the net OPEB obligation for 2013 was \$168,793. For the required three-year trend information, refer to the Required Supplementary Information.

Fund Status and Funding Progress

As of January 1, 2013, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial liability for benefits was \$102,699, and the actuarial value of assets was zero, resulting in an unfunded actuarial liability (UAAL) of \$102,699. The covered payroll (annual payroll of active employees covered by the plan) was \$2,397,441, and the ratio of the UAAL to the covered payroll was four percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

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

The following simplifying assumptions were made:

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

V. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits (OPEB)

Methods and Assumptions (Continued)

Retirement age for active employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62 or at the first subsequent year in which the member would qualify for benefits.

Marital status – Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality – Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2004 United States Life Tables for Males and for Females were used.

Turnover – Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the represent value of total benefits to be paid.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare and Medicaid Services. A rate of 5.4 percent initially, increased to a rate of 7.2 percent after six years, was used.

Health insurance premiums – 2013 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits paid.

Inflation rate – The actuarial assumptions include a 2.01 percent investment rate of return (net of investment expense), which is Red Lake County's implicit rate of return on the General Fund.

Payroll growth rate – The expected long-term payroll growth rate was based on the County's projected payroll growth rate.

Based on the historical and expected returns of the County's short-term investment portfolio, a discount rate of 2.01 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2013, was twenty-five years.

VI. Summary of Significant Contingencies and Other

A. Contingent Liabilities

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

The County, in connection with the normal conduct of its affairs, may be involved in various claims, judgments, and litigation. The County Attorney estimates that the potential claims

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities (Continued)

against the County not covered by insurance resulting from such litigation would not materially affect the financial statements of the County.

B. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT) to cover workers' compensation and property and casualty liabilities. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

The Worker's 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 \$470,000 per claim in 2013 and \$480,000 per claim in 2014. 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. The MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

C. Joint Ventures

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

The HSEM Region 3 Emergency Managers Joint Powers Board was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minnesota Statutes, § 471.59 and Minnesota Statutes, Chapter 12. Members include Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnommen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau counties.

The purpose of the HSEM Region 3 Emergency Managers Joint Powers Board is to engage in planning, training, and/or the purchase of equipment in order to better respond to emergencies and natural and other disasters within HSEM Region 3; specifically within the jurisdictional boundaries of the member counties.

Control is vested in the HSEM Region 3 Emergency Managers Joint Powers Board, which is composed of one representative from each member county, appointed by their respective governing bodies as provided in the HSEM Region 3 Emergency Managers Board's Joint Powers Agreement.

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

C. Joint Ventures

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

The HSEM Region 3 Emergency Managers Joint Powers Board has no long-term debt. Financing will be provided by a Homeland Security Grant Program and other grant programs and awards. Complete financial information can be obtained from the Clay County Sheriff's Office, 915 9th Avenue North, Moorhead, Minnesota 56560.

Inter-County Nursing Service

The Inter-County Nursing Service was formed in 1978 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Pennington and Red Lake Counties. The purpose of the Nursing Service is to provide, through visits to individuals' homes, skilled public nursing care on a part-time or intermittent basis to residents of Pennington and Red Lake Counties who are in need of such care.

Control of the Nursing Service is vested in the Inter-County Nursing Service Board which is composed of one County Commissioner and four others from each county, and a physician who may be from either county. In the event of dissolution of the Inter-County Nursing Service Board, the net assets of the Nursing Service at that time shall be divided among the member counties in proportion to the contribution of each.

The Nursing Service has no long-term debt. Financing is provided by state and federal grants, charges for services, and appropriations from the member counties. Red Lake County contributed \$21,388 to the Nursing Service for the year ended December 31, 2013. Pennington County, in an agent capacity, reports the cash transactions of the Nursing Home as an agency fund on its financial statements. Complete financial information can be obtained from the Pennington County Auditor's Office or at the Nursing Service's office, P. O. Box 616, Thief River Falls, Minnesota 56701.

Northwest Minnesota Household Hazardous Waste Management Group

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

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

Responsibility for budgeted expenditures is shared with the first 50 percent divided equally among the member counties, and the remaining 50 percent divided on a population-ratio basis.

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northwest Minnesota Household Hazardous Waste Management Group (Continued)

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

The Waste Management Group has no long-term debt. Financing is provided by appropriations from the member counties when needed. Red Lake County disbursed \$4,368 to the Waste Management Group for the year ended December 31, 2013. Clearwater County, in an agent capacity, reports the cash transactions as an agency fund on its financial statements. Complete financial information can be obtained from the Clearwater County Auditor's Office or the Waste Management Group's office, P.O. Box 186, Bagley, Minnesota 56621.

Northwest Minnesota Regional Radio Board

The Northwest Minnesota Regional Radio Board was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minnesota Statutes, §§ 403.39 and 471.59. Members include Becker, Beltrami, Clearwater, Clay, Hubbard, Kittson, Lake of the Woods, Mahnomon, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau counties and the City of Moorhead. The purpose of the Northwest Minnesota Regional Radio Board is to provide regional administration for the installation, operation, and maintenance of local and regional enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

Control is vested in the Northwest Minnesota Regional Radio Board, which is composed of one county commissioner from each member county and one city council member from the member city, appointed by their respective governing bodies as provided in the Northwest Minnesota Regional Radio Board's Joint Powers Agreement.

The Northwest Minnesota Regional Radio Board has no long-term debt. Financing is provided by annual contributions from members, reflective of the extent of participation and use of services. Red Lake County contributed \$3,000 to the Northwest Regional Radio Board for the year ended December 31, 2013. Complete financial information can be obtained from Headwaters Regional Development Commission, P.O. Box 906, Bemidji, Minnesota 56619.

Northwest Minnesota Six County Joint Powers Board

The Northwest Minnesota Six County Joint Powers Board was formed in 1994 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Beltrami, Clearwater, Marshall, Pennington, Polk, and Red Lake Counties. The purpose of the Northwest Minnesota Six County Joint Powers Board is to receive and expend funds for the purpose of beaver damage control. Control of the Association is vested in the Northwestern Counties Data Processing Security Association Joint Powers Board, which is composed of one county commissioner appointed by each member county board. In the event of dissolution, the net assets of the Association at that time shall be distributed to the respective member counties in proportion to the contribution of each.

The Northwest Minnesota Six County Joint Powers Board is composed of one representative appointed by each county board from the six counties. Each county also has one alternate

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northwest Minnesota Six County Joint Powers Board (Continued)

appointed to the Board, and the Board may choose to have non-voting advisory members on the Board. In the event of dissolution of the Northwest Minnesota Six County Joint Powers Board, the net assets of the Board at that time shall be distributed to the respective member counties in proportion to the contribution of each.

Financing is provided by grants from the State of Minnesota or from any other lawful source specifically including contributions from the respective member counties. Complete financial information can be obtained from the Red Lake Watershed District, P. O. Box 803, Thief River Falls, Minnesota 56701.

Northwest Service Cooperative

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

The NWSC is governed by a Board of Directors consisting of school board members elected at large by their peers, one city representative, with a maximum of three at-large appointees and three ex-officio superintendents.

Red Lake County contributed \$250 to the NWSC for the year ended December 31, 2013. Complete financial information can be obtained from the Northwest Service Cooperative, 114 First Street West, Thief River Falls, Minnesota 56701.

Quin County Community Health Service

The Quin County Community Health Service was formed in 1978 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Kittson, Marshall, Pennington, Red Lake, and Roseau Counties. The purpose of the Health Service is to develop and implement policies and procedures to promote efficiency and economy in the delivery of community health services.

Control of the Quin County Community Health Service is vested in the Quin County Board of Health which is composed of one member appointed by each of the member counties, as provided in the joint powers agreement. In the event of dissolution of the Quin County Board of Health, the net assets of the Health Service at that time shall be divided among the member counties in the same proportion as their respective financial responsibilities as determined by county population.

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Quin County Community Health Service (Continued)

The Health Service has no long-term debt. Financing is provided by state and federal grants, charges for services, and appropriations from the member counties when needed. Marshall County, in an agent capacity, reports the cash transactions of the Health Service as an agency fund on its financial statements. Complete financial information can be obtained from the Marshall County Auditor/Treasurer's Office or the Health Service's office located in Newfolden, Minnesota 56738.

Red Lake River Corridor

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

The Red Lake River Corridor Joint Powers Board is composed of one member for each participating entity. Each participant may also have one alternate who, in the absence of the appointed member, may attend meetings and have all the duties and rights of the member. In the event of dissolution, the net assets shall be distributed to the respective members in proportion to the contribution of each.

Financing is provided by contributions from members. The County did not contribute to the Board in 2013. Complete financial information can be obtained from the Treasurer, Stacy Myhrer, 102 Broadway Avenue North, St. Hilaire, Minnesota 56754.

Tri-County Community Corrections

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

Control of the Tri-County Community Corrections is vested in the Tri-County Community Corrections Joint Powers Board, which is composed of two county commissioners from each member county, as provided in its bylaws. In the event of dissolution of the Tri-County Community Corrections Joint Powers Board, the net assets of the Community Corrections at that time shall be divided among the member counties in the agreed-upon proportions of Norman County (eight percent), Polk County (87 percent), and Red Lake County (five percent).

The Tri-County Community Corrections has no long-term debt. Financing is provided by state, federal, and local grants, charges for services, and appropriations from member counties. Red Lake County contributed \$230,744 to the Community Corrections for the year ended December 31, 2013. Polk County, in an agent capacity, reports the cash transactions of the Community

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Tri-County Community Corrections (Continued)

Corrections as an agency fund on its financial statements. Complete financial information can be obtained from the Polk County Administrator's Office or at the Northwest Regional Correction Center, 600 Bruce Street, Crookston, Minnesota 56716.

D. Related Organization

Northwest Minnesota Council of Collaboratives

The Northwest Minnesota Council of Collaboratives is comprised of a variety of organizations from individual county collaboratives in northwest Minnesota representing Kittson, Marshall, Mahnomen, Norman, Polk and Red Lake Counties. Its 54 members include school districts and special education districts, and agencies in the areas of social services, public health, mental health and corrections. The primary goal of the Council is to promote the welfare of youth and families in the six-county area by coordinating human and financial resources to maximize the efficiency of services offered by its members. The Council also works to expand the resource base available to meet the growing needs of its population.

The members of the Northwest Minnesota Council of Collaboratives Governing Board will set policy, vision and mission. Each County's collaborative partner has two voting representatives at Governing Board meetings. Representatives must be at the CEO/Superintendent level.

Financing is provided by the collection of membership dues from the participating collaboratives and agency partners. Tri-County Community Corrections acts as fiscal agent for the Northwest Minnesota Council of Collaboratives and reports the cash transactions of the Council of Collaboratives as an agency fund in its financial statements. During 2013, Red Lake County contributed \$3,038 to the Council of Collaboratives.

Separate financial information can be obtained from Tri-County Community Corrections, 816 Marin Avenue, Suite 110, Crookston, Minnesota 56716.

E. Jointly-Governed Organizations

Children's Initiative/Family Service Collaborative

Children's Initiative/Family Service Collaborative was formed pursuant to Minnesota Statutes, §§ 121.8355 and 245.491, effective May 1, 2002, and includes Red Lake County Social Services, Red Lake Falls School District, Oklee School District, Plummer School District, CAP Agency/Inter-County Community Council, Inter-County Nursing Services, Northwestern Mental Health Center, Red Lake County's Sheriff's Department, and Tri-County Community Corrections.

The purpose of the Collaborative is to provide improved social, emotional, educational, health, and economic outcomes for all Red Lake County children, adolescents, and their families by integrating services and enhancing protective factors by creating an integrated service delivery system for children, adolescents, and their families with multiple and special needs.

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations

Children's Initiative/Family Service Collaborative (Continued)

Control of the Children's Initiative/Family Service Collaborative is vested in the Collaborative Governing Board which is composed of one member appointed by each of the members, as provided in the governance agreement. Red Lake County Social Services, in an agent capacity, reports the cash transactions of the Collaborative as an agency fund on the County's financial statements. During 2013, the County contributed \$500 to the Collaborative from the Sheriff's Department.

Job Training Partnership Act Joint Powers Agreement

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

In the event of dissolution of the Joint Powers Agreement, the net assets of the Joint Powers Board at that time shall be disposed of in accordance with law. Financing is provided primarily from federal grants provided through the Job Training Partnership Act of 1982. Complete financial information can be obtained from the Northwest Regional Development Commission, 115 South Main, Warren, Minnesota 56762.

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Becker, Beltrami, Clay, Clearwater, Itasca, Kittson, Lake, Lake of the Woods, Mahnomon, Marshall, McLeod, Morrison, Norman, Pennington, Polk, Red Lake, and Roseau Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, which is composed of ten directors, each with an alternate, who are appointed annually by each respective county board. The County's responsibility does not extend beyond making this appointment. Red Lake County contributed \$2,100 to the Caucus for the year ended December 31, 2013.

Northwest Minnesota Multi-County Housing and Redevelopment Authority

The Northwest Minnesota Multi-County Housing and Redevelopment Authority (HRA) was formed pursuant to Minnesota Statute, § 469.004, effective September 1972, and includes Kittson, Marshall, Pennington, Polk, Red Lake, and Roseau Counties. Control of the HRA is vested in the HRA Board composed of six members with indefinite terms made up of one member appointed by each Board of County Commissioners. Red Lake County, in an agent capacity, reports the cash transactions of the HRA as an agency fund on the County's financial statements. During 2013, the County did not contribute to the HRA.

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

Northwest Regional Library

The Northwest Regional Library was formed pursuant to Minnesota Statutes, §§ 134.20 and 471.59, effective January 1, 1981, and includes Kittson, Marshall, Pennington, Red Lake, and Roseau Counties. Control of the Library is vested in the Northwest Regional Library Board composed of 16 members with staggered terms. Red Lake County appropriated \$26,732 to the Library for the year ended December 31, 2013.

Northwest Workforce Service Area

The Northwest Workforce Service Area was formed in July 2000 under the authority of the Workforce Investment Act of 1998 (Public Law 105-22) and includes Kittson, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Service Area is to increase each participant's employment, retention, earnings, and occupational skill attainment, and improve the workforce quality, reduce welfare dependency, and enhance productivity and competitiveness.

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

The Northwest Workforce Service Area has no long-term debt. Financing is provided by state and local grants. Complete financial information can be obtained from the Northwest Service Cooperative, 114 First Street West, Thief River Falls, Minnesota 56701.

Red Lake Watershed District

The Red Lake Watershed District was formed pursuant to Minnesota Statutes, §§ 103D.201-.231, effective January 25, 1969, and includes land within Beltrami, Clearwater, Itasca, Koochiching, Mahnomen, Marshall, Pennington, Red Lake, and Roseau Counties. The purpose of the District is to conserve the natural resources of the state by land use planning, flood control, and other conservation projects by using sound scientific principles for the protection of the public health and welfare and the provident use of natural resources. Control of the District is vested in the Red Lake Watershed District Board of Managers composed of seven members having staggered terms of three years each, with two appointed by the Polk County Board and one each appointed by the county boards of Beltrami, Clearwater, Marshall, Pennington, and Red Lake. Red Lake County's responsibility does not extend beyond making this appointment.

REQUIRED SUPPLEMENTARY INFORMATION

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,414,526	\$ 1,414,526	\$ 1,336,542	\$ (77,984)
Licenses and permits	1,350	1,350	1,340	(10)
Intergovernmental	564,693	564,693	694,396	129,703
Charges for services	304,528	304,528	296,183	(8,345)
Investment earnings	218,000	218,000	(191,689)	(409,689)
Miscellaneous	215,190	215,190	296,269	81,079
Total Revenues	\$ 2,718,287	\$ 2,718,287	\$ 2,433,041	\$ (285,246)
Expenditures				
Current				
General government				
Commissioners	\$ 153,562	\$ 153,562	\$ 139,728	\$ 13,834
District court	13,800	13,800	5,118	8,682
Law library	5,000	5,000	1,449	3,551
County auditor	161,028	161,028	162,597	(1,569)
License bureau	8,504	8,504	8,496	8
County treasurer	104,165	104,165	103,181	984
County assessor	98,512	98,512	83,824	14,688
Elections	5,700	5,700	7,743	(2,043)
Data processing	25,400	25,400	63,757	(38,357)
Personnel	47,000	47,000	50,465	(3,465)
Professional services	48,000	48,000	43,658	4,342
Attorney	172,065	172,065	146,394	25,671
Recorder	105,650	105,650	70,318	35,332
Buildings and plant	81,478	81,478	75,490	5,988
Veterans service officer	13,273	13,273	16,737	(3,464)
Insurance	20,500	20,500	14,700	5,800
Other general government	50,658	50,658	26,965	23,693
Total general government	\$ 1,114,295	\$ 1,114,295	\$ 1,020,620	\$ 93,675

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 785,836	\$ 785,836	\$ 816,746	\$ (30,910)
Community corrections	230,900	230,900	230,744	156
Coroner	10,500	10,500	7,602	2,898
Crime victim assistance	-	-	30,264	(30,264)
Enhanced 911	72,876	72,876	56,132	16,744
Emergency services	23,427	23,427	43,835	(20,408)
Other public safety	3,200	3,200	1,023	2,177
Total public safety	\$ 1,126,739	\$ 1,126,739	\$ 1,186,346	\$ (59,607)
Sanitation				
Solid waste	\$ 9,900	\$ 9,900	\$ 16,682	\$ (6,782)
Recycling	58,436	58,436	74,015	(15,579)
Individual Septic Treatment System	39,843	39,843	18,879	20,964
Total sanitation	\$ 108,179	\$ 108,179	\$ 109,576	\$ (1,397)
Human services				
Committee on aging	\$ 7,936	\$ 7,936	\$ 7,936	\$ -
Buildings and grounds	11,450	11,450	10,033	1,417
Total human services	\$ 19,386	\$ 19,386	\$ 17,969	\$ 1,417
Health				
Nursing service	\$ 21,388	\$ 21,388	\$ 21,388	\$ -
Ambulance	30,000	30,000	75,666	(45,666)
Total health	\$ 51,388	\$ 51,388	\$ 97,054	\$ (45,666)
Culture and recreation				
Historical society	\$ 2,000	\$ 2,000	\$ 2,000	\$ -
Parks	5,600	5,600	10,481	(4,881)
Regional library	32,232	32,232	32,232	-
Snowmobile and ski trails	50,000	50,000	25,454	24,546
Celebrations	255	255	255	-
Other culture and recreation	2,000	2,000	2,000	-
Total culture and recreation	\$ 92,087	\$ 92,087	\$ 72,422	\$ 19,665

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (Continued)				
Conservation of natural resources				
Agricultural society	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Cooperative extension	84,235	84,235	84,272	(37)
Environmental services	197,233	197,233	197,623	(390)
Red River Basin	107	107	107	-
Soil and water conservation	45,000	45,000	45,423	(423)
Total conservation of natural resources	\$ 336,575	\$ 336,575	\$ 337,425	\$ (850)
Economic development				
Red River Valley Development	\$ 800	\$ 800	\$ 800	\$ -
Capital outlay				
Public safety	\$ 34,000	\$ 34,000	\$ 39,981	\$ (5,981)
Sanitation	-	-	25,116	(25,116)
Total capital outlay	\$ 34,000	\$ 34,000	\$ 65,097	\$ (31,097)
Total Expenditures	\$ 2,883,449	\$ 2,883,449	\$ 2,907,309	\$ (23,860)
Excess of Revenues Over (Under) Expenditures	\$ (165,162)	\$ (165,162)	\$ (474,268)	\$ (309,106)
Other Financing Sources (Uses)				
Transfers in	-	-	8,133	8,133
Net Change in Fund Balance	\$ (165,162)	\$ (165,162)	\$ (466,135)	\$ (300,973)
Fund Balance - January 1	3,913,117	3,913,117	3,913,117	-
Fund Balance - December 31	\$ 3,747,955	\$ 3,747,955	\$ 3,446,982	\$ (300,973)

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 462,469	\$ 462,469	\$ 437,690	\$ (24,779)
Intergovernmental	917,531	917,531	3,456,967	2,539,436
Charges for services	-	-	226,157	226,157
Investment earnings	-	-	5,586	5,586
Miscellaneous	-	-	20,533	20,533
Total Revenues	\$ 1,380,000	\$ 1,380,000	\$ 4,146,933	\$ 2,766,933
Expenditures				
Current				
Highways and streets				
Administration	\$ 53,000	\$ 53,000	\$ 322,989	\$ (269,989)
Maintenance	828,700	828,700	758,447	70,253
Construction	122,000	122,000	2,478,578	(2,356,578)
Equipment maintenance and shop	355,000	355,000	489,863	(134,863)
Town roads	-	-	140,123	(140,123)
Other highways and streets	-	-	57,607	(57,607)
Total highways and streets	\$ 1,358,700	\$ 1,358,700	\$ 4,247,607	\$ (2,888,907)
Capital outlay				
Highways and streets	452,500	452,500	178,608	273,892
Total Expenditures	\$ 1,811,200	\$ 1,811,200	\$ 4,426,215	\$ (2,615,015)
Excess of Revenues Over (Under) Expenditures	\$ (431,200)	\$ (431,200)	\$ (279,282)	\$ 151,918
Fund Balance - January 1	1,756,355	1,756,355	1,756,355	-
Increase (decrease) in inventories	-	-	93,070	93,070
Fund Balance - December 31	\$ 1,325,155	\$ 1,325,155	\$ 1,570,143	\$ 244,988

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 360,578	\$ 360,578	\$ 337,776	\$ (22,802)
Intergovernmental	487,452	487,452	546,417	58,965
Charges for services	63,500	63,500	137,562	74,062
Miscellaneous	360,500	360,500	322,702	(37,798)
Total Revenues	\$ 1,272,030	\$ 1,272,030	\$ 1,344,457	\$ 72,427
Expenditures				
Current				
Human services				
Income maintenance	\$ 608,081	\$ 608,081	\$ 706,338	\$ (98,257)
Social services	795,949	795,949	554,415	241,534
Total Expenditures	\$ 1,404,030	\$ 1,404,030	\$ 1,260,753	\$ 143,277
Excess of Revenues Over (Under) Expenditures	\$ (132,000)	\$ (132,000)	\$ 83,704	\$ 215,704
Fund Balance - January 1	1,092,935	1,092,935	1,092,935	-
Fund Balance - December 31	\$ 960,935	\$ 960,935	\$ 1,176,639	\$ 215,704

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

Schedule 4

**SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2013**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) — Simplified Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2011	-	234,193	234,193	-	2,568,976	9.1%
January 1, 2012	-	122,346	122,346	-	2,332,231	5.2%
January 1, 2013	-	102,699	102,699	-	2,397,441	4.3%

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

Schedule 5

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2013**

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2011	56,612	-	0%	128,301
December 31, 2012	22,542	-	0%	150,843
December 31, 2013	17,950	-	0%	168,793

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

I. Budgetary Information

A. Budget Policy

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end.

On or before the second week of August of each year, all departments and agencies submit requests for appropriations to the County Auditor so that a budget can be prepared. Before September 15, the proposed budget is presented to the County Board for review. The Board holds a public hearing, and then a final budget must be prepared and adopted no later than December 31.

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

B. Excess of Expenditures Over Budget

The following departments had expenditures in excess of budget for the year ended December 31, 2013:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
County auditor	\$ 162,597	\$ 161,028	\$ (1,569)
Elections	7,743	5,700	(2,043)
Data processing	63,757	25,400	(38,357)
Personnel	50,465	47,000	(3,465)
Veterans service officer	16,737	13,273	(3,464)
Public safety			
Sheriff	816,746	785,836	(30,910)
Crime victim assistance	30,264	-	(30,264)
Emergency services	43,835	23,427	(20,408)
Sanitation			
Solid waste	16,682	9,900	(6,782)
Recycling	74,015	58,436	(15,579)
Health			
Ambulance	75,666	30,000	(45,666)
Culture and recreation			
Parks	10,481	5,600	(4,881)

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

I. Budgetary Information

B. Excess of Expenditures Over Budget (Continued)

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Conservation of natural resources			
Cooperative extension	84,272	84,235	\$ (37)
Environmental services	197,623	197,233	(390)
Soil and water conservation	45,423	45,000	(423)
Capital outlay			
Public safety	39,981	34,000	(5,981)
Sanitation	25,116	-	(25,116)
Road and Bridge Special Revenue Fund			
Highways and streets			
Administration	322,989	53,000	(269,989)
Construction	2,478,578	122,000	(2,356,578)
Equipment maintenance and shop	489,863	355,000	(134,863)
Town roads	140,123	-	(140,123)
Other highways and streets	57,607	-	(57,607)
Social Services Special Revenue Fund			
Human services			
Income maintenance	706,338	608,081	(98,257)

II. Other Post-Employment Benefits (OPEB)

For the year ended December 31, 2013, the composition of the population covered by the plan and the actuarial methods and assumptions used did not significantly differ. County insurance rates were higher in 2013 causing a slight decrease in the implicit rate subsidy as compared to 2012. Additional information can be found on Schedules 4 and 5 of this section and the Notes to the Financial Statements Section V., Other Post-Employment Benefits.

SUPPLEMENTARY INFORMATION

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The Ditch Special Revenue Fund is used to account for and report the operation and maintenance of county, judicial, and state drainage systems. Financing is provided by special assessments levied against benefited properties restricted for conservation of natural resources.

The Forfeited Tax Sale Special Revenue Fund is used to account for and report proceeds from the sale or rental of lands forfeited to the State of Minnesota pursuant to Minnesota Statutes, Chapter 282 and various forest and timber management grants. The net proceeds, after deducting allowable expenses, are restricted to various County funds and taxing districts. Titles to the tax-forfeited lands remains with the State until the lands are sold by the County.

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2013**

	Ditch	Forfeited Tax Sale	Total Nonmajor Special Revenue Funds (Exhibit 3)
<u>Assets</u>			
Cash and pooled investments	\$ 516,482	\$ 6,042	\$ 522,524
Special assessments receivable - prior	1,155	-	1,155
Due from other governments	19,724	-	19,724
Special assessments - noncurrent	66,069	-	66,069
	\$ 603,430	\$ 6,042	\$ 609,472
<u>Liabilities, Deferred Inflows and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 5,040	\$ -	\$ 5,040
Due to other funds	-	2,407	2,407
Due to other governments	20	3,635	3,655
	\$ 5,060	\$ 6,042	\$ 11,102
Deferred Inflows			
Special assessments	67,224	-	67,224
Fund Balances			
Restricted for conservation of natural resources	531,146	-	531,146
	\$ 603,430	\$ 6,042	\$ 609,472

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

Statement 2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Ditch</u>	<u>Forfeited Tax Sale</u>	<u>Total Nonmajor Special Revenue Funds (Exhibit 5)</u>
Revenues			
Special assessments	\$ 95,961	\$ -	\$ 95,961
Charges for services	18,065	-	18,065
Land and timber sales	-	6,000	6,000
Miscellaneous	-	455	455
Total Revenues	\$ 114,026	\$ 6,455	\$ 120,481
Expenditures			
Current			
Conservation of natural resources	\$ 45,852	\$ 4,087	\$ 49,939
Debt Service			
Interest	546	-	546
Total Expenditures	\$ 46,398	\$ 4,087	\$ 50,485
Excess of Revenues Over (Under) Expenditures	\$ 67,628	\$ 2,368	\$ 69,996
Other Financing Sources (Uses)			
Transfers out	(5,765)	(2,368)	(8,133)
Net Change in Fund Balance	\$ 61,863	\$ -	\$ 61,863
Fund Balance - January 1	469,283	-	469,283
Fund Balance - December 31	\$ 531,146	\$ -	\$ 531,146

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

AGENCY FUNDS

The Children's Initiative/Family Service Collaborative Agency Fund is used to account for receipts and disbursements for the Collaborative.

The Flexible Spending Agency Fund is used to account for the payroll deductions of employees enrolled in the flexible spending program.

The Insurance Agency Fund is used to account for the employer's share of group insurance. Funds are provided for payment of the insurance from the General Fund and special revenue funds.

The Northwest Minnesota Multi-County Housing and Redevelopment Agency Fund is used to account for the collection and payment of funds due the Northwest Minnesota Multi-County Housing and Redevelopment Authority.

The Northwest Regional Development Commission Agency Fund is used to account for the collection and payment of funds due the Northwest Regional Development Commission.

The Prepaid Specials Agency Fund is used to account for the payment of prepaid special assessments.

The Prepaid Taxes Agency Fund is used to account for the payment of taxes prior to the preparation of tax statements or prior to January 1 of the year due.

The School Districts Agency Fund is used to account for the collection and payment of funds due school districts.

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

The Taxes and Penalties Agency Fund is used to account for collection and distribution of taxes and penalties for the various taxing districts of the County.

The Towns and Cities Agency Fund is used to account for collection and payment of funds due townships and cities.

The Watershed Agency Fund is used to account for the collection and payment of funds due the Red Lake Watershed District.

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CHILDREN'S INITIATIVE/FAMILY SERVICE COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 21,825	\$ 23,324	\$ (687)	\$ 45,836
Due from other governments	-	151	-	151
Total Assets	\$ 21,825	\$ 23,475	\$ (687)	\$ 45,987
<u>Liabilities</u>				
Due to other governments	\$ 21,825	\$ 23,475	\$ (687)	\$ 45,987
<u>FLEXIBLE SPENDING</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 677	\$ 9,800	\$ 9,779	\$ 698
<u>Liabilities</u>				
Accounts payable	\$ 677	\$ 9,800	\$ 9,779	\$ 698
<u>INSURANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 494,553	\$ 494,553	\$ -
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 494,553	\$ 494,553	\$ -
<u>NORTHWEST MINNESOTA MULTI-COUNTY HOUSING AND REDEVELOPMENT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 19,199	\$ 19,199	\$ -
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 19,199	\$ 19,199	\$ -

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

***Statement 3
(Continued)***

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>NORTHWEST REGIONAL DEVELOPMENT COMMISSION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 10,752	\$ 10,752	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 10,752	\$ 10,752	\$ -
<u>PREPAID SPECIALS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,408	\$ 7,138	\$ 9,546	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 2,408	\$ 7,138	\$ 9,546	\$ -
<u>PREPAID TAXES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 9,790	\$ 2,124	\$ 11,414	\$ 500
<u>Liabilities</u>				
Due to other funds	\$ 9,790	\$ 2,124	\$ 11,414	\$ 500
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,516,153	\$ 1,516,153	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,516,153	\$ 1,516,153	\$ -

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 23,548	\$ 984,912	\$ 1,000,079	\$ 8,381
<u>Liabilities</u>				
Due to other governments	\$ 23,548	\$ 984,912	\$ 1,000,079	\$ 8,381
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 71,079	\$ 6,387,988	\$ 6,381,225	\$ 77,842
Due from other funds	9,790	500	9,790	500
Total Assets	\$ 80,869	\$ 6,388,488	\$ 6,391,015	\$ 78,342
<u>Liabilities</u>				
Due to other governments	\$ 80,869	\$ 6,388,488	\$ 6,391,015	\$ 78,342
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 69	\$ 1,632,977	\$ 1,632,656	\$ 390
Due from other governments	-	3	-	3
Total Assets	\$ 69	\$ 1,632,980	\$ 1,632,656	\$ 393
<u>Liabilities</u>				
Due to other governments	\$ 69	\$ 1,632,980	\$ 1,632,656	\$ 393
<u>WATERSHED</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 239,432	\$ 239,432	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 239,432	\$ 239,432	\$ -

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

Statement 3
(Continued)

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 129,396	\$ 11,328,352	\$ 11,324,101	\$ 133,647
Due from other funds	9,790	500	9,790	500
Due from other governments	-	154	-	154
Total Assets	\$ 139,186	\$ 11,329,006	\$ 11,333,891	\$ 134,301
<u>Liabilities</u>				
Accounts payable	\$ 677	\$ 523,552	\$ 523,531	\$ 698
Due to other funds	9,790	2,124	11,414	500
Due to other governments	128,719	10,803,330	10,798,946	133,103
Total Liabilities	\$ 139,186	\$ 11,329,006	\$ 11,333,891	\$ 134,301

OTHER SCHEDULES

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2013**

	Assets				Total Assets
	Cash	Special Assessments Receivable Prior	Due from Other Governments	Special Assessments Receivable Noncurrent	
County Ditches					
2	\$ 10,384	\$ -	\$ 3,679	\$ -	\$ 14,063
3	40,734	-	-	-	40,734
4	10,481	1	8,390	-	18,872
9	20,694	7	-	-	20,701
12	12,040	-	-	-	12,040
17	34,251	50	-	-	34,301
18-65	18,518	270	-	-	18,788
22	3,726	3	-	-	3,729
23	5,821	-	-	-	5,821
24	20,133	-	-	-	20,133
28	139	-	-	-	139
57	42,766	523	-	-	43,289
58	19,026	-	-	-	19,026
60	17,892	8	-	-	17,900
61	6,708	79	-	-	6,787
62	32,045	-	-	-	32,045
64	6,172	-	-	-	6,172
67	23,364	-	-	-	23,364
69	3,483	-	-	-	3,483
70	3,428	-	-	-	3,428
Joint Ditches					
1	37,979	9	473	-	38,461
3	41,339	-	228	-	41,567
11	8,474	9	247	-	8,730
13	4,464	-	86	-	4,550
15	13,887	-	325	-	14,212
31	5,294	-	129	-	5,423
60	29,595	174	4,531	-	34,300
64	15,609	7	198	-	15,814
66	12,633	15	1,339	-	13,987
71	15,403	-	99	-	15,502
Watershed Ditch					
10	-	-	-	66,069	66,069
Total	\$ 516,482	\$ 1,155	\$ 19,724	\$ 66,069	\$ 603,430

Schedule 6

Liabilities			Total Liabilities, Deferred Inflows and Fund Balances		
Accounts Payable	Due to Other Governments	Total Liabilities	Deferred Inflows	Fund Balances Restricted	Total Liabilities, Deferred Inflows and Fund Balances
\$ 1,512	\$ -	\$ 1,512	\$ -	\$ 12,551	\$ 14,063
-	-	-	-	40,734	40,734
3,175	-	3,175	1	15,696	18,872
-	-	-	7	20,694	20,701
-	-	-	-	12,040	12,040
-	-	-	50	34,251	34,301
-	-	-	270	18,518	18,788
-	-	-	3	3,726	3,729
-	-	-	-	5,821	5,821
-	-	-	-	20,133	20,133
-	-	-	-	139	139
-	-	-	523	42,766	43,289
-	-	-	-	19,026	19,026
-	-	-	8	17,892	17,900
-	-	-	79	6,708	6,787
-	-	-	-	32,045	32,045
-	-	-	-	6,172	6,172
-	-	-	-	23,364	23,364
-	-	-	-	3,483	3,483
-	-	-	-	3,428	3,428
-	-	-	9	38,452	38,461
-	-	-	-	41,567	41,567
-	-	-	9	8,721	8,730
-	-	-	-	4,550	4,550
-	-	-	-	14,212	14,212
-	20	20	-	5,403	5,423
-	-	-	174	34,126	34,300
-	-	-	7	15,807	15,814
353	-	353	15	13,619	13,987
-	-	-	-	15,502	15,502
-	-	-	66,069	-	66,069
\$ 5,040	\$ 20	\$ 5,060	\$ 67,224	\$ 531,146	\$ 603,430

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

Schedule 7

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2013**

Shared Revenue

State

County program aid	\$	321,577
Disparity reduction aid		69,567
Enhanced 911		73,587
Highway users tax		2,885,924
Market value credit		57,921
PERA rate reimbursement		8,965
Police state aid		50,669
		50,669

Total Shared Revenue **\$ 3,468,210**

Payments

Payments in lieu of taxes	\$	10,665
Polk County		475,320
		475,320

Total Payments **\$ 485,985**

Grants

State

Minnesota Department/Board of

Corrections	\$	258
Human Services		108,890
Natural Resources		60,237
Peace Officer Standards and Training		2,734
Pollution Control Agency		55,950
Public Safety		23,625
Veterans Affairs		7,500
Water and Soil Resources		58,238
		58,238

Total State **\$ 317,432**

Federal

Department of

Agriculture	\$	41,876
Health and Human Services		350,958
Homeland Security		33,319
		33,319

Total Federal **\$ 426,153**

Total Grants **\$ 743,585**

Total Intergovernmental Revenue **\$ 4,697,780**

MANAGEMENT AND COMPLIANCE SECTION

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

Schedule 8

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2013

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

1996-004 Segregation of Duties

Due to the limited number of personnel within several County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Red Lake County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting control point of view.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

We recommend that Red Lake County's management be aware of the lack of segregation of duties within the accounting and data processing functions and, if possible, implement oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

County's Response:

Management is aware of this issue and continues to monitor the situation. Workload determines staffing needs and separation of job duties is not always possible. The County has limited staff with several duties.

2007-001 Internal Controls

The financial statements are the responsibility of the County's management. Internal control over financial reporting is a process designed to provide reasonable assurance about the achievement of the County's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the County's objective of reliable financial reporting. In this section, the term financial reporting relates to the preparation of reliable financial statements that are fairly presented in conformity with GAAP.

Management must implement internal controls over financial reporting and safeguarding of assets, and continue to be aware of their responsibility and to maintain suitable skills, knowledge, and expertise to sufficiently review, understand, and approve the County's financial statements, including notes.

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

Schedule 8
(Continued)

County's Response:

The County monitors the effectiveness of internal controls and will implement changes as needed.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

2013-001 Contracts over \$100,000

In 2013 the County Road and Bridge Department entered into a contract for gravel stockpiling without the appropriate advertising, sealed bid process, or bonds which are required for contracts exceeding \$100,000.

Minnesota Statute, § 471.345 states "If the amount of the contract is estimated to exceed \$100,000, sealed bids shall be solicited by public notice in the manner and subject to the requirements of the law governing contracts by the particular municipality...". Minn. Stat. 375.21 states: "a contract for work or labor...shall be made by a county board only after advertising for bids or proposals in a qualified legal newspaper of the county." In addition, Minn. Stat. §574.26, states "a contract with a County for the doing of any public work is not valid unless the contractor gives (1) a performance bond to the County with whom the contractor entered into the contract, for the use and benefit of the County to complete the contract according to its terms, and conditioned on saving the County harmless from all costs and charges that may accrue on account of completing the specified work, and (2) a payment bond for the use and benefit of all persons furnishing labor and materials engaged under, or to perform the contract, conditioned for the payment, as they become due, of all just claims for the labor and materials."

We recommend the County follow the requirements of Minnesota Statutes with all future contracts. When quotes received indicate that the amount of the project will exceed \$100,000, the appropriate statutory authority shall be used.

County Engineer's Response:

The contract proposal was not expected to exceed \$100,000, and it was competitively solicited. Four pre-screened local contractors with proposals for the requisite equipment and insurance on file received proposal packages, three provided sealed proposals. Proposal package and sealed bid summary provided to audit team.

Two modifications were required: Clear and grub area required more work than estimated due to area and depth of the overburden to be removed for future crushing operation, so was converted to equipment hourly quotes on file, and actual stockpile dimensions were measured for volume determination and payment.

**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

Schedule 8
(Continued)

Performance bond was not stipulated, as there was no County asset in jeopardy: no material left the public property, no finished materials or equipment were involved. Performance was fully monitored, and final completion was required prior to payment. There was no County risk to warrant the expense of a performance bond on a pre-screened proposer.

There were no material suppliers for the services, only contractor labor, equipment, and fuel. There were no subcontractors performing. There was no County risk to warrant the expense of a payment bond with a single final payment. Bond expense ultimately falls to the County, and should not be required unless warranted by risk. Risk is assessed by the Department Head.

County Engineer believes procurement procedures meet the spirit and intent of the Statutes, with best value for the County.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM RESOLVED

1996-011 Ditch Fund Balance Deficits

One of the 34 active individual ditch fund had a deficit restricted fund balance totaling \$17,168 at December 31, 2012.

Minnesota Statute, § 103E.735, subd. 1, provides that a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

We recommend that the County Board eliminate the individual ditch system deficits by levying assessments pursuant to Minnesota Statute, § 103E.735.

Resolution:

The County eliminated the individual ditch system deficit fund balance in 2013.



GOVERNMENTAL AUDIT SERVICES

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

Board of County Commissioners
Red Lake County

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Red Lake County as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 14, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 1996-004 and 2007-001, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Red Lake County's financial statements are free of 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 Minnesota Statute, § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

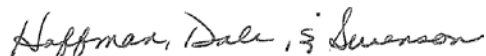
In connection with our audit, nothing came to our attention that caused us to believe that the County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* except as described in the Schedule of Findings and Questioned Costs as item 2013-001. 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.

County's Responses to Findings

The County's responses to the findings identified in our audit have been included in the accompanying Schedule of Findings and Responses. 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, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the result of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Hoffman, Dale, & Swenson, PLLC

October 14, 2014