

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA
YEAR ENDED DECEMBER 31, 2015

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

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RED LAKE FALLS, MINNESOTA**

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INTRODUCTORY SECTION

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

**ORGANIZATION SCHEDULE
DECEMBER 31, 2015**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1 st District	David K. Sorensen	January 2019
2 nd District	Ron Weiss, Chair	January 2017
3 rd District	John B. Lerohl	January 2019
4 th District	Anthony Flage	January 2019
5 th District	Charles Simpson	January 2017
Officers		
Elected:		
Attorney	Daniel Geller	January 2019
Auditor	Robert Schmitz	January 2019
Recorder	Joyce Paquin	January 2019
Sheriff	Mitch Bernstein	January 2019
Treasurer	Nick Knott	January 2019
Appointed:		
Assessor	Nancy Amberson	December 2016
Medical Examiner	Dr. Mary Ann Sens	June 2018
Highway Engineer	Courtney Kleven	May 2018
Veterans Service Officer	Kurtis Ellefson	December 2019
Environmental Services Director	Kurt Casavan	Indefinite
Social Services Board		
Chair	David K. Sorensen	January 2019
Vice Chair	Charles Simpson	January 2017
Secretary	Ron Weiss	January 2017
Member	Gayle Flateland	July 2017
Member	Patricia Purath	July 2016
Member	John B. Lerohl	January 2019
Member	Anthony Flage	January 2019
Director	Kristi Nelson	Indefinite

FINANCIAL SECTION

Colleen Hoffman, Director
Crystelle Philipp, CPA
Marit Knutson, CPA



Hoffman, Philipp, & Knutson, PLLC

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Red Lake County

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Red Lake County, Minnesota, as of and for the year ended December 31, 2015, 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 business-type activities, each major fund, and the aggregate remaining fund information of the Red Lake County, Minnesota, as of December 31, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in the Notes to the Financial Statements, the County has adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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.

Supplementary 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 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2016, 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.

Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis is not a required part of the basic financial statements. The SEFA 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.



Hoffman, Philipp, & Knutson, PLLC

August 10, 2016

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, 2015. 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

During the current year, the County of Red Lake adopted the accounting principles discussed in further detail in the Notes to the Financial Statements. Such accounting principles have been adopted prospectively, and therefore, comparative information in this section has not been restated to reflect the effect of the adoption of these accounting principles.

The total net position of governmental activities are \$47,554,029, of which \$40,253,832 is the net investment in capital assets, \$4,785,381 is restricted for specific purposes, and \$2,514,816 is unrestricted. The total net position of governmental activities decreased by \$210,497 for the year ended December 31, 2015. This is attributed mainly to planned use of reserves in the 2015 budget.

At the close of 2015, the County's governmental funds reported combined ending fund balances of \$5,903,951 a decrease of \$601,943 from the prior year. Of the total fund balance amount, \$240,063 is non-spendable, \$864,788 is legally or contractually restricted, \$3,554,224 is formally committed for specific purposes, and \$1,244,876 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.

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 11 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 \$47,554,029 at the close of 2015. The largest portion of the County's net position (approximately 85 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 10 percent of the County's net position is restricted and 5 percent of the County's net position is unrestricted. The unrestricted net position amount of \$2,514,816 as of December 31, 2015, may be used to meet the County's ongoing obligations to citizens.

The County's overall financial position decreased from last year. Total assets increased by \$2,064,498, from the prior year due to planned use of reserves, county highway construction projects, and major equipment purchases. Total liabilities increased by \$2,351,726, from the prior year, as a result of increased contracts payable. This resulted in a decreased net position of \$210,497 from the prior year.

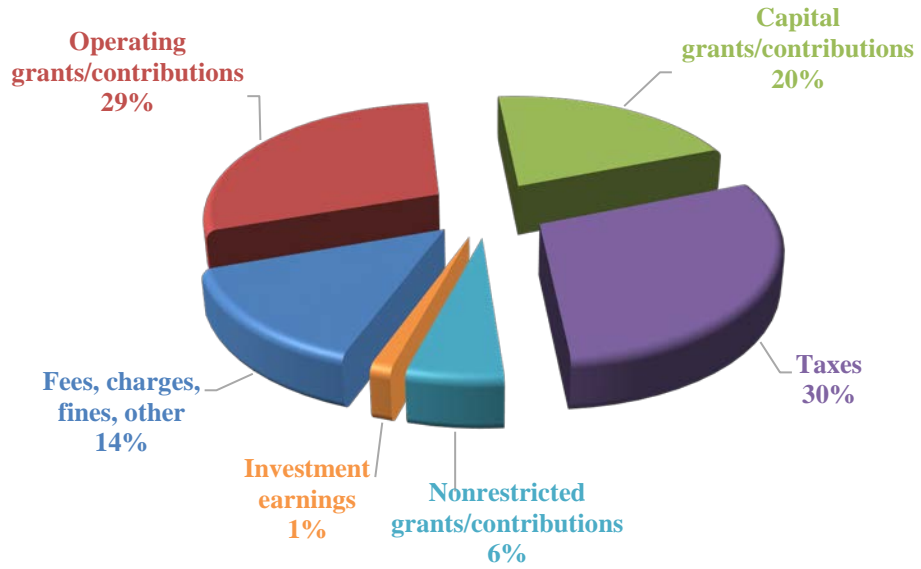
NET POSITION

	Governmental Activities	
	2015	2014
Current and other assets	\$ 10,156,569	\$ 9,544,627
Special assessments - noncurrent	47,192	56,630
Capital assets	40,253,832	38,791,838
Total assets	\$ 50,457,593	\$ 48,393,095
Deferred outflows - pensions	\$ 385,983	\$ -
Other liabilities	\$ 365,673	\$ 279,404
Long-term liabilities outstanding	2,614,622	349,165
Total liabilities	\$ 2,980,295	\$ 628,569
Deferred inflows - pensions	\$ 309,252	\$ -
Net position		
Net investment in capital assets	\$ 40,253,832	\$ 38,791,838
Restricted	4,785,381	3,631,904
Unrestricted	2,514,816	5,340,784
Total net position	\$ 47,554,029	\$ 47,764,526

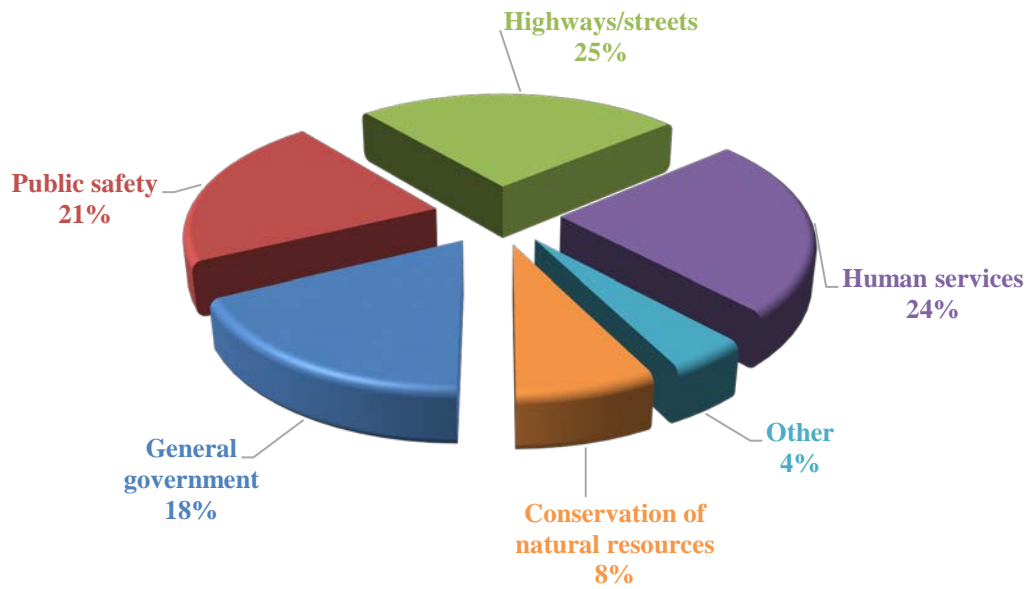
CHANGES IN NET POSITION

	Governmental Activities	
	2015	2014
Revenues		
Program Revenues		
Fees, charges, fines and other	\$ 1,125,199	\$ 919,550
Operating grants and contributions	2,318,018	2,183,676
Capital grants and contributions	1,618,133	1,717,738
General Revenues		
Taxes	2,366,701	2,199,009
Grants and contributions not restricted to specific programs	447,657	463,268
Payments in lieu of taxes	10,052	9,966
Investment earnings	100,141	305,163
Total revenues	\$ 7,985,901	\$ 7,798,370
Expenses		
General government	\$ 1,090,345	\$ 1,124,513
Public safety	1,293,210	1,342,708
Highways and streets	1,527,522	3,569,374
Sanitation	98,341	118,023
Human services	1,481,716	1,345,645
Health	60,388	63,888
Culture and recreation	93,832	104,871
Conservation of natural resources	464,025	383,378
Economic development	800	800
Interest	12,925	-
Total expenses	\$ 6,123,104	\$ 8,053,200
Increase (decrease)	\$ 1,862,797	\$ 3,211,560
Net position, January 1, as previously reported	\$ 47,811,769	\$ 48,019,356
Prior period adjustment	(2,120,537)	-
Net position, January 1, as restated	45,691,232	48,019,356
Net position, December 31	\$ 47,554,029	\$ 51,230,916

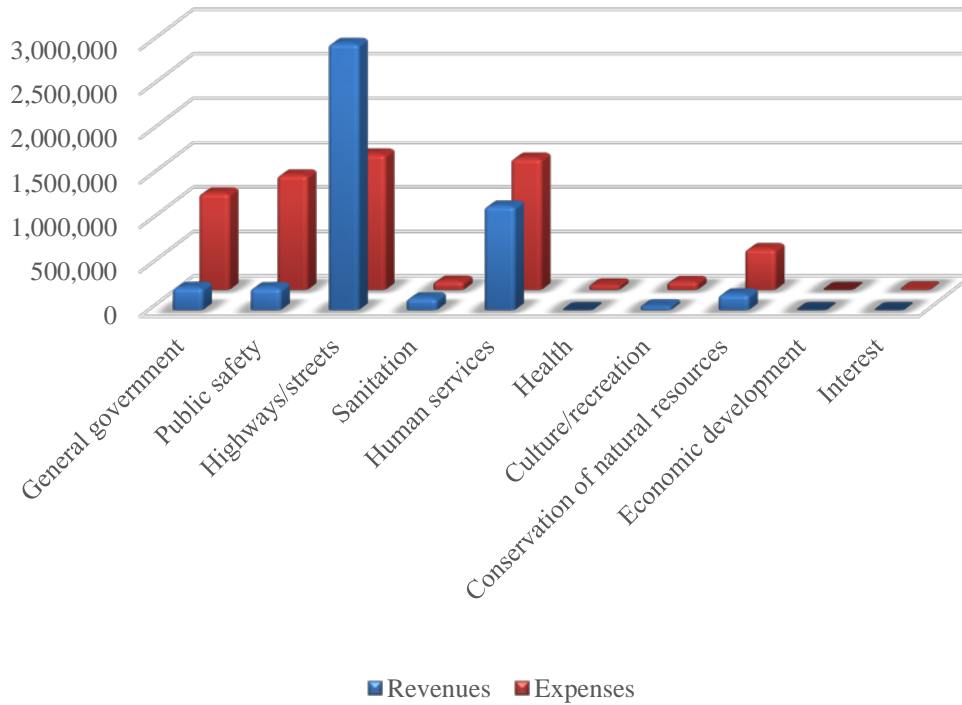
Revenues by Source



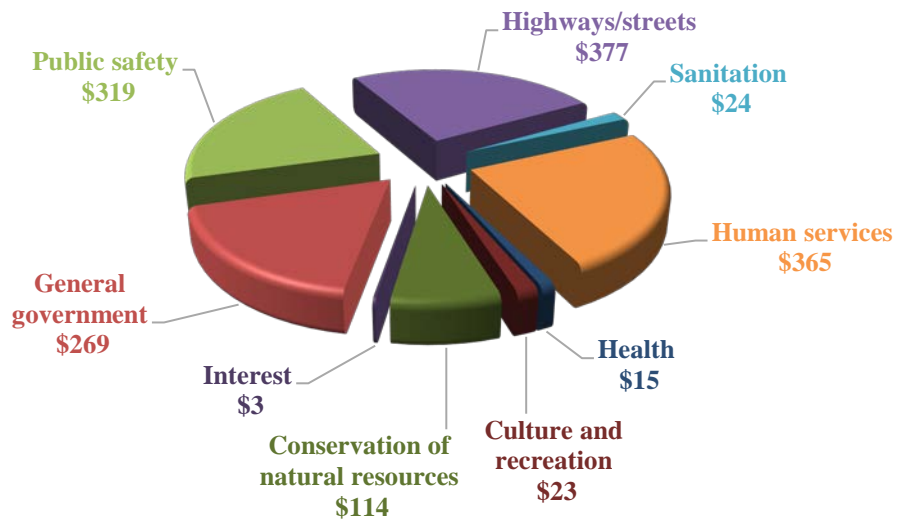
Expenses by Function



Program Revenues & Expenses



Expenditures Per Capita 4,055 Population as of July 1, 2015



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 2015, the County's governmental funds reported combined ending fund balances of \$5,903,951. Of this amount, approximately 4 percent constitutes non-spendable fund balance, 15 percent constitutes legally or contractually restricted fund balance, 60 percent constitutes formally committed fund balance, and 21 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 \$2,827,686. The General Fund had no non-spendable fund balance, restricted fund balance was \$264,591, and committed fund balance was \$2,563,095. 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 2015. Unrestricted fund balance represents 83 percent of total General Fund expenditures, while total fund balance represents 91 percent of that same amount.

In 2015, the fund balance amount in the General Fund decreased by \$351,196, as a result of planned use of reserves, and capital outlay for public safety.

The fund balance of the Road and Bridge Special Revenue Fund decreased by \$406,568 in 2015 due to planned spending of reserves for major equipment purchases and added road maintenance projects.

The fund balance of the Social Services Special Revenue Fund increased \$147,230 from the prior year due to more funding generated by activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the original budget as approved for 2015.

Actual revenues were more than overall final budgeted revenues by \$1,789,668, with the largest variance in taxes. Actual expenditures were more than overall final budgeted expenditures by \$84,282.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2015, amounted to \$40,253,832 (net of accumulated depreciation). The total increase in the County's investment in capital assets for the current fiscal year was four percent. This was primarily due to road construction.

	Governmental Activities	
	2015	2014
Land	\$ 230,801	\$ 230,801
Construction in progress	2,830,190	1,597,285
Infrastructure	35,930,343	35,776,945
Buildings and improvements	244,511	170,336
Machinery and equipment	1,017,987	1,016,471
Total capital assets	<u>\$ 40,253,832</u>	<u>\$ 38,791,838</u>

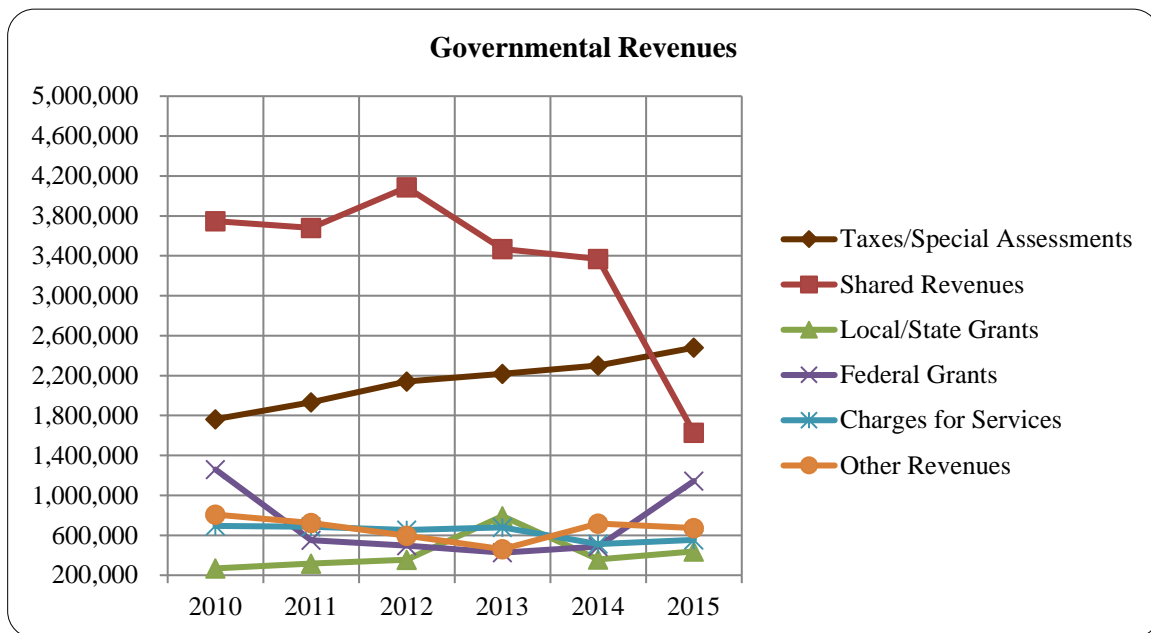
Additional information on the County's capital assets can be found in the notes to the financial statements.

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 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 7.9 percent as of December, 2015. This is higher than the statewide rate of 3.7 percent and the national average rate of 5.0 percent.
- Red Lake County's population at July 1, 2015 was 4,055, a decrease of 34 since 2010. This ranks Red Lake County 85th of 87 in the State of Minnesota.
- On December 22, 2015, Red Lake County set its 2016 revenue and expenditure budgets.
- The County is concerned about unfunded mandates, rising employee health insurance and benefit costs, 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, 2015**

<u>Assets</u>	<u>Governmental Activities</u>
Cash and pooled investments	\$ 5,263,078
Cash with fiscal agent	66,718
Investments	800,985
Taxes receivable - prior	48,177
Special assessments receivable - prior	1,644
Accounts receivable	5,346
Accrued interest receivable	10,232
Due from other governments	3,719,691
Loans receivable	635
Inventories	240,063
Special assessments - noncurrent	47,192
Capital assets	
Non-depreciable	3,060,991
Depreciable - net of accumulated depreciation	37,192,841
Total Assets	\$ 50,457,593
<u>Deferred Outflows of Resources</u>	
Related to pensions	\$ 385,983
<u>Liabilities</u>	
Accounts payable	\$ 43,647
Salaries payable	89,705
Contracts payable	182,377
Due to other governments	49,944
Long-term liabilities	
Due within one year	168,975
Due in more than one year	2,445,647
Total Liabilities	\$ 2,980,295
<u>Deferred Inflows of Resources</u>	
Related to pensions	\$ 309,252
<u>Net Position</u>	
Net investment in capital assets	\$ 40,253,832
Amounts restricted for	
General government	117,389
Public safety	12,624
Highways and streets	3,845,497
Conservation of natural resources	674,904
Economic development	134,967
Unrestricted amounts	2,514,816
Total Net Position	\$ 47,554,029

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

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Fees, Charges, Fines and Other	Operating Grants and Contributions		Capital Grants and Contributions
Functions/Programs					
Governmental activities					
General government	\$ 1,090,345	\$ 208,191	\$ 47,641	\$ -	\$ (834,513)
Public safety	1,293,210	88,897	163,449	-	(1,040,864)
Highways and streets	1,527,522	195,892	1,216,945	1,603,332	1,488,647
Sanitation	98,341	17,147	119,630	-	38,436
Human services	1,481,716	512,892	658,201	-	(310,623)
Health	60,388	-	-	-	(60,388)
Culture and recreation	93,832	-	49,461	-	(44,371)
Conservation of natural resources	464,025	102,108	62,691	14,801	(284,425)
Economic development	800	72	-	-	(728)
Interest	12,925	-	-	-	(12,925)
Total governmental activities	\$ 6,123,104	\$ 1,125,199	\$ 2,318,018	\$ 1,618,133	\$ (1,061,754)
General revenues					
Property taxes					\$ 2,362,518
Gravel tax					4,183
Grants and contributions not restricted to specific programs					447,657
Payments in lieu of taxes					10,052
Investment earnings					100,141
Total general revenues					\$ 2,924,551
Change in net position					\$ 1,862,797
Net position - January 1, as previously reported					\$ 47,811,769
Prior period adjustment					(2,120,537)
Net position - January 1, as restated					\$ 45,691,232
Net position - December 31					\$ 47,554,029

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

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	<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	\$ 2,666,961	\$ 707,333	\$ 1,279,682	\$ 609,102	\$ 5,263,078
Cash with fiscal agent	66,718	-	-	-	66,718
Investments	84,574	716,411	-	-	800,985
Taxes receivable - prior	30,981	9,868	7,328	-	48,177
Special assessments receivable - prior	51	-	-	1,593	1,644
Accounts receivable	1,122	3,484	740	-	5,346
Accrued interest receivable	6,853	3,379	-	-	10,232
Due from other funds	2,143	-	-	-	2,143
Due from other governments	42,061	3,522,676	139,268	15,686	3,719,691
Loans receivable	635	-	-	-	635
Inventories	-	240,063	-	-	240,063
Special assessments - noncurrent	47,192	-	-	-	47,192
Total Assets	\$ 2,949,291	\$ 5,203,214	\$ 1,427,018	\$ 626,381	\$ 10,205,904
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 2,703	\$ 12,691	\$ 27,813	\$ 440	\$ 43,647
Salaries payable	45,011	21,631	23,063	-	89,705
Due to other funds	-	-	-	2,143	2,143
Due to other governments	825	1,803	25,308	22,008	49,944
Contracts payable	-	182,377	-	-	182,377
Total Liabilities	\$ 48,539	\$ 218,502	\$ 76,184	\$ 24,591	\$ 367,816
Deferred Inflows of Resources					
Taxes	\$ 25,188	\$ 8,023	\$ 5,958	\$ -	\$ 39,169
Special assessments	47,243	-	-	-	47,243
Loans	635	-	-	1,593	2,228
County State Aid Highway Allotment	-	3,845,497	-	-	3,845,497
Total Deferred Inflows of Resources	\$ 73,066	\$ 3,853,520	\$ 5,958	\$ 1,593	\$ 3,934,137

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

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	<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	\$ -	\$ 240,063	\$ -	\$ -	\$ 240,063
Restricted for					
Attorney's forfeiture	470	-	-	-	470
Conservation of natural resources	-	-	-	600,197	600,197
Crime victim	1,392	-	-	-	1,392
Enhanced 911	12,614	-	-	-	12,614
Gravel pit restoration	58,084	-	-	-	58,084
House arrest	296	-	-	-	296
Housing rehabilitation	66,718	-	-	-	66,718
Landslide acquisition	68,249	-	-	-	68,249
Parks	-	-	-	-	-
Recorder's equipment	46,788	-	-	-	46,788
Recorder's technology	9,970	-	-	-	9,970
Sheriff's forfeited property	10	-	-	-	10
Committed to					
Ambulance	51,834	-	-	-	51,834
Building improvements - Social Services	-	-	100,000	-	100,000
Corrections	1,000,000	-	-	-	1,000,000
Courthouse equipment	10,500	-	-	-	10,500
Courthouse replacement	1,106,234	-	-	-	1,106,234
Environmental/Recycling	349,091	-	-	-	349,091
Environmental equipment	3,000	-	-	-	3,000
Road and bridge equipment	-	891,129	-	-	891,129
Good neighbor	30	-	-	-	30
Sheriff's contingent fund	2,406	-	-	-	2,406
Solid waste	40,000	-	-	-	40,000
Assigned to					
Social services	-	-	1,244,876	-	1,244,876
Total Fund Balances	\$ 2,827,686	\$ 1,131,192	\$ 1,344,876	\$ 600,197	\$ 5,903,951
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,949,291	\$ 5,203,214	\$ 1,427,018	\$ 626,381	\$ 10,205,904

**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, 2015**

Fund balances - total governmental funds (Exhibit 3)	\$	5,903,951
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		40,253,832
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.</p>		3,934,137
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
<p>Compensated absences payable</p>	\$ (204,506)	
<p>Other post employment benefits</p>	(161,668)	(366,174)
<p>Net pension liability and related outflows/inflows of resources represent the allocation of the pension obligations of the statewide plans to the City. Such balances are not reported in the governmental funds:</p>		
<p>Deferred outflows of resources related to pensions</p>	\$ 385,983	
<p>Deferred inflows of resources related to pensions</p>	(309,252)	
<p>Net pension liability</p>	(2,248,448)	(2,171,717)
Net position of governmental activities (Exhibit 1)	\$	<u>47,554,029</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, 2015**

	General Fund	Road and Bridge Special Revenue Fund	Social Services Special Revenue Fund	Nonmajor Special Revenue Funds (Statement 2)	Total Governmental Funds
Revenues					
Taxes	\$ 1,538,435	\$ 480,690	\$ 347,753	\$ -	\$ 2,366,878
Special assessments	14,801	-	-	88,236	103,037
Licenses and permits	20	-	-	-	20
Intergovernmental	719,519	1,775,629	722,855	-	3,218,003
Charges for services	165,886	162,819	207,989	16,304	552,998
Investment earnings	90,256	9,885	-	-	100,141
Miscellaneous	229,886	33,073	304,903	6,027	573,889
Total Revenues	\$ 2,758,803	\$ 2,462,096	\$ 1,583,500	\$ 110,567	\$ 6,914,966
Expenditures					
Current					
General government	\$ 1,060,224	\$ -	\$ -	\$ -	\$ 1,060,224
Public safety	1,208,377	-	-	-	1,208,377
Highways and streets	-	2,674,323	-	-	2,674,323
Sanitation	92,053	-	-	-	92,053
Human services	22,566	-	1,436,270	-	1,458,836
Health	60,388	-	-	-	60,388
Culture and recreation	93,832	-	-	-	93,832
Conservation of natural resources	377,117	-	-	86,908	464,025
Economic development	800	-	-	-	800
Debt service					
Interest	-	-	-	12,925	12,925
Capital outlay					
General government	30,351	-	-	-	30,351
Public safety	161,114	-	-	-	161,114
Highways and streets	-	169,981	-	-	169,981
Sanitation	5,320	-	-	-	5,320
Total Expenditures	\$ 3,112,142	\$ 2,844,304	\$ 1,436,270	\$ 99,833	\$ 7,492,549
Excess of Revenues Over (Under) Expenditures	\$ (353,339)	\$ (382,208)	\$ 147,230	\$ 10,734	\$ (577,583)
Other Financing Sources (Uses)					
Transfers in	\$ 2,143	\$ -	\$ -	\$ -	\$ 2,143
Transfers out	-	-	-	(2,143)	(2,143)
Total Other Financing Sources (Uses)	\$ 2,143	\$ -	\$ -	\$ (2,143)	\$ -
Net Change in Fund Balance	\$ (351,196)	\$ (382,208)	\$ 147,230	\$ 8,591	\$ (577,583)
Fund Balance - January 1	3,178,882	1,537,760	1,197,646	591,606	6,505,894
Increase (decrease) in inventories	-	(24,360)	-	-	(24,360)
Fund Balance - December 31	\$ 2,827,686	\$ 1,131,192	\$ 1,344,876	\$ 600,197	\$ 5,903,951

**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, 2015**

Net change in fund balances - total governmental funds (Exhibit 5)	\$	(577,583)
<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	\$ 2,691,046	
Current year depreciation	(1,131,892)	
Net book value of disposed assets	<u>(97,160)</u>	1,461,994
<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 of resources		1,070,935
<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	\$ (24,360)	
Compensated absences payable	(17,881)	
Other post-employment benefits	<u>872</u>	(41,369)
<p>Net pension liability does not represent the impending use of current resources. Therefore, the change in the liability and the related deferrals are not reported in the governmental funds.</p>		
		<u>(51,180)</u>
Change in net position of governmental activities (Exhibit 2)	\$	<u>1,862,797</u>

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

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2015**

	<u>Agency (Statement 3)</u>
<u>Assets</u>	
Cash and pooled investments	\$ 156,836
Accounts receivable	1,010
Due from other funds	4,060
Due from other governments	498
Total Assets	<u>\$ 162,404</u>
<u>Liabilities</u>	
Accounts payable	\$ 3,664
Due to other funds	2,030
Due to other governments	156,710
Total Liabilities	<u>\$ 162,404</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015**

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, 2015, 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 2015 were \$99,268. Total investment earnings for 2015 were \$100,141.

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.”

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 of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods, and therefore, will not be recognized as an outflow of resources (expense) until that time. The County reports deferred outflows of resources in the government-wide and proprietary funds Statement of Net Position in relation to the activity of the pension funds in which County employees participate.

In addition to liabilities, the Statement of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time. The County reports property taxes, special assessments levied for subsequent years, and loans receivable as deferred inflows of resources in the governmental fund financial statements. The County reports delinquent property tax receivables as deferred inflows of resources in the governmental funds, in accordance with the modified accrual basis of accounting. In addition, the County reports deferred inflows of resources in the government-wide and proprietary funds Statement of Net Position in relation to the activity of the pension funds in which County employees participate. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available.

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

I. Summary of Significant Accounting Policies

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

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.

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. Pensions

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

8. 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. The net investment in capital assets represents capital assets, net of accumulated depreciation.

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

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

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

8. Net Position and Fund Balance (Continued)

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, 2015.

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 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. The County does not identify an amount for stabilization at December 31, 2015.

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.

9. 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.

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

II. Stewardship, Compliance, and Accountability

A. Change in Accounting Principles

During the year ended December 31, 2015, the County adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*, requires governments providing defined pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contributions requirements.

GASB Statement 68 and 71 require the County to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the County's net pension liability and related deferred outflows of resources.

	Governmental Activities
Net position - January 1, 2015, as previously reported	\$ 47,811,769
Change in accounting principles	(2,120,537)
Net position - January 1, 2015, as restated	\$ 45,691,232

B. 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.

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

III. 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, 2015, are as follows:

Cash and pooled investments	\$ 5,263,078
Cash with fiscal agent	66,718
Investments	800,985
Fiduciary funds cash and pooled investments	<u>156,836</u>
Total cash and investments	<u><u>\$ 6,287,617</u></u>
Deposits	\$ 1,572,976
Cash on hand	715
Investments	<u>4,713,926</u>
Total deposits, cash on hand, and investments	<u><u>\$ 6,287,617</u></u>

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, 2015, the County’s deposits were not exposed to custodial credit risk.

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

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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
- (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.

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

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Interest Rate Risk (Continued)

At December 31, 2015, 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	\$ 845,445	\$ -	\$ 199,280	\$ 646,165
Mutual Funds	2,133,467	2,133,467	-	-
Negotiable Certificates of Deposit	1,487,006	200,482	1,187,696	98,828
Cash/Money Market	<u>248,008</u>	<u>248,008</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 4,713,926</u>	<u>\$ 2,581,957</u>	<u>\$ 1,386,976</u>	<u>\$ 744,993</u>
	100%	55%	29%	18%

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.

The County's exposure to credit risk as of December 31, 2015, is as follows:

	<u>S & P Rating</u>	<u>Fair Value</u>
Federal Home Loan Bank	AAA	\$ 845,445
Mutual Funds	N/R	2,133,467
Negotiable Certificates of Deposit	N/A	1,487,006
Cash/Money Market	N/A	<u>248,008</u>
		<u>\$ 4,713,926</u>

N/R – not rated

N/A – not applicable

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

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Investments (Continued)

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, 2015, the following investments held in the County's name may be subject to custodial credit risk:

Federal Home Bank Loan	\$	279,537
Mutual Funds		1,779,622
Money Market		<u>101,691</u>
	\$	<u><u>2,160,850</u></u>

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.

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	\$ 845,445	18%

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

III. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2015, for the County's governmental activities, including any applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes	\$ 48,177	\$ -
Special assessments	48,836	47,192
Accounts	5,346	-
Accrued interest	10,232	-
Due from other governments	3,719,691	-
Loans	635	-
	<u>3,832,917</u>	<u>47,192</u>
Total	<u>\$ 3,832,917</u>	<u>\$ 47,192</u>

3. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 230,801	\$ -	\$ -	\$ 230,801
Construction in progress	1,597,285	1,232,905	-	2,830,190
Total capital assets not depreciated	<u>\$ 1,828,086</u>	<u>\$ 1,232,905</u>	<u>\$ -</u>	<u>\$ 3,060,991</u>
Capital assets being depreciated				
Infrastructure	\$ 49,830,549	\$ 1,091,375	\$ -	\$ 50,921,924
Buildings and improvements	1,228,688	97,965	-	1,326,653
Machinery and equipment	3,163,279	268,801	343,912	3,088,168
Total capital assets being depreciated	<u>\$ 54,222,516</u>	<u>\$ 1,458,141</u>	<u>\$ 343,912</u>	<u>\$ 55,336,745</u>
Less: accumulated depreciation for				
Infrastructure	\$ 14,053,604	\$ 937,977	\$ -	\$ 14,991,581
Buildings and improvements	1,058,352	23,790	-	1,082,142
Machinery and equipment	2,146,808	170,125	246,752	2,070,181
Total accumulated depreciation	<u>\$ 17,258,764</u>	<u>\$ 1,131,892</u>	<u>\$ 246,752</u>	<u>\$ 18,143,904</u>
Total capital assets, depreciated, net	<u>\$ 36,963,752</u>	<u>\$ 326,249</u>	<u>\$ 97,160</u>	<u>\$ 37,192,841</u>
Governmental Activities Capital Assets, Net	<u>\$ 38,791,838</u>	<u>\$ 1,559,154</u>	<u>\$ 97,160</u>	<u>\$ 40,253,832</u>

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

III. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Depreciation Expense

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

General government	\$	8,240
Public safety		53,148
Highways and streets, including depreciation of infrastructure assets		1,049,680
Human services		14,737
Sanitation		<u>6,087</u>
 Total Depreciation Expense		 <u><u>\$ 1,131,892</u></u>

Construction Contracts

The County has active construction contracts as of December 31, 2015. The contracts include the following:

	Spent-to-Date	Remaining Contracts
Governmental activities		
Highways and streets	\$ 2,671,274	\$ 44,697

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, 2015, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	
General Fund	Forfeited Tax Special Revenue Fund	<u><u>\$ 2,143</u></u>	Forfeited tax settlement

Interfund Transfers

Interfund transfers for the year ended December 31, 2015 consisted of the following operating transfers:

Transfer to General Fund from			
Forfeited Tax Sale Special Revenue Fund	<u><u>\$ 2,143</u></u>		Forfeited tax settlement

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

III. 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 \$126,967 at December 31, 2015, 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, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
OPEB Liability	\$ 162,540	\$ 5,630	\$ 6,502	\$ 161,668	\$ -
Compensated Absences	186,625	160,002	142,121	204,506	168,975
Net Pension Liability	-	2,248,448	-	2,248,448	-
	<u>\$ 349,165</u>	<u>\$ 165,632</u>	<u>\$ 148,623</u>	<u>\$ 366,174</u>	<u>\$ 168,975</u>

IV. 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 2015, there were approximately 64 participants in the plan, with no retirees.

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

IV. Other Post-Employment Benefits (OPEB) (Continued)

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.

Annual Required Contribution	\$	2,928
Interest on net OPEB obligation		2,701
Adjustments to Annual Required Contribution		<u>(6,502)</u>
Annual OPEB cost (expense)	\$	(873)
Contributions made		<u>-</u>
Increase in net OPEB obligation	\$	(873)
Net OPEB Obligation - January 1, 2015		<u>162,541</u>
Net OPEB Obligation - December 31, 2015	\$	<u><u>161,668</u></u>

The County's annual OPEB cost for December 31, 2015, was \$(6,502). The percentage of annual OPEB cost contributed to the plan was zero percent, and the net OPEB obligation for 2015 was \$161,668. For the required three-year trend information, refer to the Required Supplementary Information.

Fund Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial liability for benefits was \$24,905, and the actuarial value of assets was zero, resulting in an unfunded actuarial liability (UAAL) of \$24,905. The covered payroll (annual payroll of active employees covered by the plan) was \$2,555,247, and the ratio of the UAAL to the covered payroll was 1.0 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.

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

IV. Other Post-Employment Benefits (OPEB) (Continued)

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:

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 present 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 – 2015 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, 2015, was twenty-two years.

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

V. Defined Benefit Pension Plans

A. Plan Description

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

1. General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of Red Lake County are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Fund (PEPFF)

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

Benefits Provided

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

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

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

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

V. Defined Benefit Pension Plans

A. Plan Description

Benefits Provided (Continued)

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member 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% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

2. PEPFF Benefits

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For PEPFF who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

B. Contributions

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

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. Red Lake County was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. Red Lake County's contributions to the GERF for the year ended December 31, 2015, were \$155,614. Red Lake County's contributions were equal to the required contributions as set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. Red Lake County was required to contribute 16.20% of pay for

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

V. Defined Benefit Pension Plans

B. Contributions

2. PEPPF Contributions (Continued)

PEPPF members in calendar year 2015. Red Lake County's contributions to the PEPFF for the year ended December 31, 2015, were \$67,202. Red Lake County's contributions were equal to the required contributions as set by state statute.

C. Pension Costs

1. GERF Pension Costs

At December 31, 2015, Red Lake County reported a liability of \$1,725,779 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuations as of that date. Red Lake County proportion of the net pension liability was based on Red Lake County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all PERA's participating employers. At June 30, 2015, Red Lake County's proportion share was .0333% which was a decrease of .0003% from its proportion measured as of June 30, 2014.

There were no provision changes during the measurement period.

For the year ended December 31, 2015, Red Lake County recognized pension expense of \$184,241 for its proportionate share of the GERF's pension expense.

At December 31, 2015, Red Lake County reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 87,009
Difference between projected and actual investment earnings	163,371	-
Changes in proportion	-	137,402
Contributions paid to PERA subsequent to the measurement date	<u>80,261</u>	<u>-</u>
Total	<u>\$ 243,632</u>	<u>\$ 224,411</u>

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

V. Defined Benefit Pension Plans

C. Pension Costs

1. GERF Pension Costs (Continued)

The \$150,793 reported as deferred outflows of resources related to pensions resulting from Red Lake County's contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2016	\$ (33,961)
2017	(33,961)
2018	(33,961)
2019	40,843

2. PEPFF Pension Costs

At December 31, 2015, Red Lake County reported a liability of \$522,668 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Red Lake County's proportion of the net pension liability was based on Red Lake County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all PERA's participating employers. At June 30, 2015, Red Lake County's proportion was .046% which was an increase of .0088% from its proportion measured as of June 30, 2014.

There were no provision changes during the measurement period.

For the year ended December 31, 2015, Red Lake County recognized pension expense of \$93,668 for its proportionate share of the PEPFF's pension expense.

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

V. Defined Benefit Pension Plans

C. Pension Costs

2. PEPPF Pension Costs (Continued)

As of December 31, 2015, Red Lake County reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 84,760
Difference between projected and actual investment earnings	91,066	-
Changes in proportion	18,001	-
Contributions paid to PERA subsequent to the measurement date	33,284	-
Total	\$ 142,351	\$ 84,760

The \$33,284 reported as deferred outflows of resources related to pensions resulting from Red Lake County's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2016	\$ 514
2017	514
2018	514
2019	22,767

D. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

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

V. Defined Benefit Pension Plans

D. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males and females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% effective every January 1st until 2026, then 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERS was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

E. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed the employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

V. Defined Benefit Pension Plans (Continued)

F. Pension Liability Sensitivity

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

City of Thief River Fall's	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the GERS net pension liability	\$ 2,713,538	\$ 1,725,779	\$ 910,042
Proportionate share of the PEPFF net pension liability	\$ 1,018,685	\$ 522,668	\$ 112,871

G. Pension Plan Fiduciary Net Position

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

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 pending claims and potential claims 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

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

VI. Summary of Significant Contingencies and Other Items

B. Risk Management (Continued)

the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$490,000 per claim in 2015 and \$500,000 per claim in 2016. 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. The HSEM Region 3 Emergency Managers Joint Powers Board charges sufficient rates so that the participating members experience no financial benefit or burden.

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.

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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. Red Lake County did not contribute to the HSEM for the year ended December 31, 2015. 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, 2015. 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/Treasurer'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 \$4,805 to the Waste Management Group for the year ended December 31, 2015. 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/Treasurer'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 (NMRRB) 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, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau counties and the City of Moorhead. The purpose of the NMRRB 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 NMRRB'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 \$2,500 to the NMRRB for the year ended December 31, 2015. Complete financial information can be obtained from the NMRRB, C/O Greater Northwest EMS, 2301 Johanneson Avenue NW, Suite 103, Bemidji, Minnesota, 56601.

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 appointed to the Board, and the Board may choose to have non-voting advisory members on the

**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)

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. The Northwest Minnesota Six County Joint Powers Board charges sufficient rates so that the participating members experience no financial benefit or burden.

Financing is provided by grants from the State of Minnesota or from any other lawful source specifically including contributions from the respective member counties. Red Lake County did not contribute for the year ended December 31, 2015. 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. The NWSC charges sufficient rates so that the participating members experience no financial benefit or burden.

Red Lake County did not contribute to the NWSC for the year ended December 31, 2015. 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 (QCCHS) 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 QCCHS 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. The QCCHS charges sufficient rates so that the participating members experience no financial benefit or burden. 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. Red Lake County did not contribute for the year ended December 31, 2015. 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, 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. The Red Lake River Corridor charges sufficient rates so that the participating members experience no financial benefit or burden.

Financing is provided by contributions from members. The County did not contribute to the Board in 2015. 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 \$241,572 to the Community Corrections for the year ended December 31, 2015. 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 2015, Red Lake County contributed \$1,688 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 2015, the County made no contributions 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 Counties Computer Cooperative (MCCC)

Under Minnesota Joint Powers Law, Minnesota Statute, § 471.59, Minnesota counties have created MCCC to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, Red Lake County expended 9,946 to the MCCC.

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, Mahnommen, 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, 2015.

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

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

VI. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations

Northwest Minnesota Multi-County Housing and Redevelopment Authority (Continued)

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 2015, the County did not contribute to the HRA.

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, 2015.

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, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 23,300	\$ 23,300	\$ 1,538,435	\$ 1,515,135
Special assessments	-	-	14,801	14,801
Licenses and permits	1,350	1,350	20	(1,330)
Intergovernmental	373,734	373,734	719,519	345,785
Charges for services	140,070	140,070	165,886	25,816
Investment earnings	150,000	150,000	90,256	(59,744)
Miscellaneous	280,681	280,681	229,886	(50,795)
Total Revenues	\$ 969,135	\$ 969,135	\$ 2,758,803	\$ 1,789,668
Expenditures				
Current				
General government				
Commissioners	\$ 156,516	\$ 156,516	\$ 147,481	\$ 9,035
District court	11,500	11,500	7,499	4,001
Law library	1,660	1,660	1,066	594
County auditor	174,669	174,669	150,162	24,507
License bureau	8,522	8,522	8,514	8
County treasurer	113,015	113,015	110,301	2,714
County assessor	110,579	110,579	96,204	14,375
Elections	2,000	2,000	5,918	(3,918)
Data processing	50,000	50,000	51,138	(1,138)
Personnel	62,174	62,174	67,217	(5,043)
Professional services	37,000	37,000	26,713	10,287
Attorney	154,109	154,109	153,668	441
Recorder	118,224	118,224	92,190	26,034
Buildings and plant	89,693	89,693	81,002	8,691
Veterans service officer	21,520	21,520	21,458	62
Insurance	17,000	17,000	14,746	2,254
Other general government	44,800	44,800	24,947	19,853
Total general government	\$ 1,172,981	\$ 1,172,981	\$ 1,060,224	\$ 112,757

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

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 866,763	\$ 866,763	\$ 867,432	\$ (669)
Community corrections	200,356	200,356	200,356	-
Coroner	10,500	10,500	9,351	1,149
Crime victim assistance	29,257	29,257	33,725	(4,468)
Enhanced 911	73,587	73,587	63,453	10,134
Emergency services	28,728	28,728	34,060	(5,332)
Total public safety	\$ 1,209,191	\$ 1,209,191	\$ 1,208,377	\$ 814
Sanitation				
Solid waste	\$ 10,100	\$ 10,100	\$ 10,611	\$ (511)
Recycling	78,955	78,955	81,442	(2,487)
Total sanitation	\$ 89,055	\$ 89,055	\$ 92,053	\$ (2,998)
Human services				
Committee on aging	\$ 8,360	\$ 8,360	\$ 8,360	\$ -
Buildings and grounds	11,450	11,450	14,206	(2,756)
Total human services	\$ 19,810	\$ 19,810	\$ 22,566	\$ (2,756)
Health				
Nursing service	\$ 21,388	\$ 21,388	\$ 21,388	\$ -
Ambulance	39,000	39,000	39,000	-
Total health	\$ 60,388	\$ 60,388	\$ 60,388	\$ -
Culture and recreation				
Historical society	\$ 2,000	\$ 2,000	\$ 2,000	\$ -
Parks	5,900	5,900	8,385	(2,485)
Regional library	32,232	32,232	32,232	-
Snowmobile and ski trails	50,000	50,000	50,960	(960)
Celebrations	255	255	255	-
Total culture and recreation	\$ 90,387	\$ 90,387	\$ 93,832	\$ (3,445)

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

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (Continued)				
Conservation of natural resources				
Administration	\$ 18,941	\$ 18,941	\$ 22,392	\$ (3,451)
Agricultural society	10,000	10,000	10,000	-
Cooperative extension	88,207	88,207	87,343	864
Environmental services	172,125	172,125	168,008	4,117
Red River Basin	107	107	107	-
Soil and water conservation	95,868	95,868	89,267	6,601
Total conservation of natural resources	\$ 385,248	\$ 385,248	\$ 377,117	\$ 8,131
Economic development				
Red River Valley Development	\$ 800	\$ 800	\$ 800	\$ -
Capital outlay				
General government	\$ -	\$ -	\$ 30,351	\$ (30,351)
Public safety	-	-	161,114	(161,114)
Sanitation	-	-	5,320	(5,320)
Total capital outlay	\$ -	\$ -	\$ 196,785	\$ (196,785)
Total Expenditures	\$ 3,027,860	\$ 3,027,860	\$ 3,112,142	\$ (84,282)
Excess of Revenues Over (Under)				
Expenditures	\$ (2,058,725)	\$ (2,058,725)	\$ (353,339)	\$ 1,705,386
Other Financing Sources (Uses)				
Transfers in	-	-	2,143	2,143
Net Change in Fund Balance	\$ (2,058,725)	\$ (2,058,725)	\$ (351,196)	\$ 1,707,529
Fund Balance - January 1	3,178,882	3,178,882	3,178,882	-
Fund Balance - December 31	\$ 1,120,157	\$ 1,120,157	\$ 2,827,686	\$ 1,707,529

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

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 565,000	\$ 565,000	\$ 480,690	\$ (84,310)
Intergovernmental	890,000	890,000	1,775,629	885,629
Charges for services	-	-	162,819	162,819
Investment earnings	-	-	9,885	9,885
Miscellaneous	-	-	33,073	33,073
Total Revenues	\$ 1,455,000	\$ 1,455,000	\$ 2,462,096	\$ 1,007,096
Expenditures				
Current				
Highways and streets				
Administration	-	-	\$ 316,009	\$ (316,009)
Maintenance	865,000	865,000	841,723	23,277
Construction	893,700	893,700	1,031,369	(137,669)
Equipment maintenance and shop	20,000	20,000	239,321	(219,321)
Town roads	-	-	155,762	(155,762)
Other highways and streets	-	-	90,139	(90,139)
Total highways and streets	\$ 1,778,700	\$ 1,778,700	\$ 2,674,323	\$ (895,623)
Capital outlay				
Highways and streets	225,000	225,000	169,981	55,019
Total Expenditures	\$ 2,003,700	\$ 2,003,700	\$ 2,844,304	\$ (840,604)
Excess of Revenues Over (Under) Expenditures	\$ (548,700)	\$ (548,700)	\$ (382,208)	\$ 166,492
Fund Balance - January 1	1,537,760	1,537,760	1,537,760	-
Increase (decrease) in inventories	-	-	(24,360)	(24,360)
Fund Balance - December 31	\$ 989,060	\$ 989,060	\$ 1,131,192	\$ 142,132

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

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 426,574	\$ 426,574	\$ 347,753	\$ (78,821)
Intergovernmental	549,304	549,304	722,855	173,551
Charges for services	135,000	135,000	207,989	72,989
Miscellaneous	265,210	265,210	304,903	39,693
Total Revenues	\$ 1,376,088	\$ 1,376,088	\$ 1,583,500	\$ 207,412
Expenditures				
Current				
Human services				
Income maintenance	\$ 708,916	\$ 708,916	\$ 838,090	\$ (129,174)
Social services	667,172	667,172	598,180	68,992
Total Expenditures	\$ 1,376,088	\$ 1,376,088	\$ 1,436,270	\$ (60,182)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 147,230	\$ 147,230
Fund Balance - January 1	1,197,646	1,197,646	1,197,646	-
Fund Balance - December 31	\$ 1,197,646	\$ 1,197,646	\$ 1,344,876	\$ 147,230

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

Schedule 4

**SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2015**

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, 2013	-	102,699	102,699	0%	2,397,441	4.3%
January 1, 2014	-	(12,566)	(12,566)	0%	2,502,972	-0.5%
January 1, 2015	-	24,905	24,905	0%	2,555,247	1.0%

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

Schedule 5

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2015**

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2013	17,950	-	0%	168,793
December 31, 2014	(6,253)	-	0%	162,540
December 31, 2015	(873)	-	0%	161,668

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

Schedule 6

**SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA
FOR THE YEAR ENDED DECEMBER 31, 2015**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2015	\$ 155,614	\$ 155,614	\$ -	\$ 2,096,864	7.4%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2015	\$ 67,202	\$ 67,202	\$ -	\$ 414,824	16.2%

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

Schedule 7

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
FOR THE YEAR ENDED DECEMBER 31, 2015**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

<u>Fiscal Year Ending</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2015	0.0333%	\$ 1,725,779	\$ 1,992,123	86.63%	78.20%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

<u>Fiscal Year Ending</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2015	0.0460%	\$ 522,668	\$ 417,734	125.12%	86.60%

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

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, 2015:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
Elections	\$ 5,918	\$ 2,000	\$ (3,918)
Data processing	51,138	50,000	(1,138)
Personnel	67,217	62,174	(5,043)
Public safety			
Sheriff	867,432	866,763	(669)
Crime victim assistance	33,725	29,257	(4,468)
Emergency services	34,060	28,728	(5,332)
Sanitation			
Solid waste	10,611	10,100	(511)
Recycling	81,442	78,955	(2,487)
Human services			
Buildings and grounds	14,206	11,450	(2,756)

**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>
Culture and recreation			
Parks	\$ 8,385	\$ 5,900	\$ (2,485)
Snowmobile and ski trails	50,960	50,000	(960)
Conservation of natural resources			
Administration	22,392	18,941	(3,451)
Capital outlay			
General government	30,351	-	(30,351)
Public safety	161,114	-	(161,114)
Sanitation	5,320	-	(5,320)
Road and Bridge Special Revenue Fund			
Highways and streets			
Administration	316,009	-	(316,009)
Construction	1,031,369	893,700	(137,669)
Equipment maintenance and shop	239,321	20,000	(219,321)
Town roads	155,762	-	(155,762)
Other highways and streets	90,139	-	(90,139)
Social Services Special Revenue Fund			
Human services			
Income maintenance	838,090	708,916	(129,174)

II. Other Post-Employment Benefits (OPEB)

For the year ended December 31, 2015, 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 2015 causing a slight decrease in the implicit rate subsidy as compared to 2014. 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.

III. Net Pension Liability

The information presented in the required supplementary schedules was used in the actuarial valuation for purposes of determining the actuarially determined contribution rates. The assumptions and methods used for this actuarial valuation were recommend by PERA and adopted by the County Commissioners.

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, 2015**

	Ditch	Forfeited Tax Sale	Total Nonmajor Special Revenue Funds (Exhibit 3)
Assets			
Cash and pooled investments	\$ 603,745	\$ 5,357	\$ 609,102
Special assessments receivable - prior	1,593	-	1,593
Due from other governments	15,686	-	15,686
	\$ 621,024	\$ 5,357	\$ 626,381
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 440	\$ -	\$ 440
Due to other funds	-	2,143	2,143
Due to other governments	18,794	3,214	22,008
	\$ 19,234	\$ 5,357	\$ 24,591
Deferred Inflows of Resources			
Special assessments	\$ 1,593	\$ -	\$ 1,593
Fund Balances			
Restricted for conservation of natural resources	\$ 600,197	\$ -	\$ 600,197
	\$ 621,024	\$ 5,357	\$ 626,381
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 621,024	\$ 5,357	\$ 626,381

**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, 2015**

	Ditch	Forfeited Tax Sale	Total Nonmajor Special Revenue Funds (Exhibit 5)
Revenues			
Special assessments	\$ 88,236	\$ -	\$ 88,236
Charges for services	16,304	-	16,304
Miscellaneous	-	6,027	6,027
	\$ 104,540	\$ 6,027	\$ 110,567
Expenditures			
Current			
Conservation of natural resources	\$ 83,024	\$ 3,884	\$ 86,908
Debt Service			
Interest	12,925	-	12,925
	\$ 95,949	\$ 3,884	\$ 99,833
Excess of Revenues Over (Under) Expenditures	\$ 8,591	\$ 2,143	\$ 10,734
Other Financing Sources (Uses)			
Transfers out	-	(2,143)	(2,143)
Net Change in Fund Balance	\$ 8,591	\$ -	\$ 8,591
Fund Balance - January 1	591,606	-	591,606
Fund Balance - December 31	\$ 600,197	\$ -	\$ 600,197

**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 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 ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CHILDREN'S INITIATIVE/FAMILY SERVICE COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 4,311	\$ 31,065	\$ 6,922	\$ 28,454
Due from other funds	-	3,116	-	3,116
Due from other governments	-	498	-	498
Total Assets	\$ 4,311	\$ 34,679	\$ 6,922	\$ 32,068
<u>Liabilities</u>				
Due to other governments	\$ 4,311	\$ 34,679	\$ 6,922	\$ 32,068
<u>FLEXIBLE SPENDING</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 3,270	\$ 11,266	\$ 10,872	\$ 3,664
<u>Liabilities</u>				
Accounts payable	\$ 3,270	\$ 11,266	\$ 10,872	\$ 3,664
<u>INSURANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 516,384	\$ 516,384	\$ -
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 516,384	\$ 516,384	\$ -
<u>NORTHWEST MINNESOTA MULTI-COUNTY HOUSING AND REDEVELOPMENT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 25,947	\$ 25,947	\$ -
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 25,947	\$ 25,947	\$ -

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

***Statement 3
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>NORTHWEST REGIONAL DEVELOPMENT COMMISSION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 10,615	\$ 10,615	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 10,615	\$ 10,615	\$ -
<u>PREPAID TAXES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 722	\$ 4,432	\$ 3,124	\$ 2,030
<u>Liabilities</u>				
Due to other funds	\$ 722	\$ 4,432	\$ 3,124	\$ 2,030
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,745,918	\$ 1,745,918	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,745,918	\$ 1,745,918	\$ -
<u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 8,753	\$ 1,118,383	\$ 1,113,137	\$ 13,999
<u>Liabilities</u>				
Due to other governments	\$ 8,753	\$ 1,118,383	\$ 1,113,137	\$ 13,999

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

***Statement 3
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 83,087	\$ 7,062,218	\$ 7,036,616	\$ 108,689
Due from other funds	722	722	500	944
Total Assets	<u>\$ 83,809</u>	<u>\$ 7,062,940</u>	<u>\$ 7,037,116</u>	<u>\$ 109,633</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 83,809</u>	<u>\$ 7,062,940</u>	<u>\$ 7,037,116</u>	<u>\$ 109,633</u>
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 343	\$ 1,699,042	\$ 1,699,385	\$ -
Accounts receivable	-	1,010	-	1,010
Total Assets	<u>\$ 343</u>	<u>\$ 1,700,052</u>	<u>\$ 1,699,385</u>	<u>\$ 1,010</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 343</u>	<u>\$ 1,700,052</u>	<u>\$ 1,699,385</u>	<u>\$ 1,010</u>
<u>WATERSHED</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 254,901	\$ 254,901	\$ -
<u>Liabilities</u>				
Due to other governments	<u>\$ -</u>	<u>\$ 254,901</u>	<u>\$ 254,901</u>	<u>\$ -</u>

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

Statement 3
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 100,486	\$ 12,480,171	\$ 12,423,821	\$ 156,836
Accounts receivable	-	1,010	-	1,010
Due from other funds	722	3,838	500	4,060
Due from other governments	-	498	-	498
	\$ 101,208	\$ 12,485,517	\$ 12,424,321	\$ 162,404
<u>Liabilities</u>				
Accounts payable	\$ 3,270	\$ 553,597	\$ 553,203	\$ 3,664
Due to other funds	722	4,432	3,124	2,030
Due to other governments	97,216	11,927,488	11,867,994	156,710
	\$ 101,208	\$ 12,485,517	\$ 12,424,321	\$ 162,404

OTHER SCHEDULES

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

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2015**

	Assets			Total Assets
	Cash	Special Assessments Receivable Prior	Due from Other Governments	
County Ditches				
2	\$ 20,666	\$ -	\$ 88	\$ 20,754
3	38,600	-	-	38,600
4	24,807	2	55	24,864
9	25,606	4	-	25,610
12	16,663	-	-	16,663
17	23,488	-	-	23,488
18-65	21,858	403	-	22,261
22	5,440	-	-	5,440
23	6,548	-	-	6,548
24	25,024	-	-	25,024
28	2,040	1	-	2,041
57	31,729	290	-	32,019
58	26,553	-	-	26,553
60	19,558	3	-	19,561
61	14,887	231	-	15,118
62	39,768	-	-	39,768
64	8,714	263	-	8,977
67	25,889	-	-	25,889
69	5,968	-	-	5,968
70	4,206	-	-	4,206
Joint Ditches				
1	47,799	21	353	48,173
3	41,200	-	129	41,329
11	11,236	14	353	11,603
13	9,334	-	628	9,962
15	19,905	-	109	20,014
31	8,292	154	411	8,857
60	41,450	110	1,548	43,108
64	19,985	15	1,519	21,519
66	123	82	9,968	10,173
71	16,409	-	525	16,934
Total	\$ 603,745	\$ 1,593	\$ 15,686	\$ 621,024

Schedule 8

Liabilities						Fund Balances Restricted	Total Liabilities, Deferred Inflows of Resources, and Fund Balances
Accounts Payable	Due to Other Ditches	Due to Other Governments	Total Liabilities	Deferred Inflows of Resources			
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,754	\$ 20,754	
-	618	-	618	-	37,982	38,600	
-	-	-	-	2	24,862	24,864	
-	-	-	-	4	25,606	25,610	
-	-	-	-	-	16,663	16,663	
-	-	-	-	-	23,488	23,488	
-	-	-	-	403	21,858	22,261	
-	-	-	-	-	5,440	5,440	
-	-	-	-	-	6,548	6,548	
-	-	-	-	-	25,024	25,024	
-	-	-	-	1	2,040	2,041	
-	-	-	-	290	31,729	32,019	
-	-	-	-	-	26,553	26,553	
-	-	-	-	3	19,558	19,561	
-	-	-	-	231	14,887	15,118	
-	-	-	-	-	39,768	39,768	
-	-	-	-	263	8,714	8,977	
-	-	-	-	-	25,889	25,889	
-	-	-	-	-	5,968	5,968	
-	-	-	-	-	4,206	4,206	
-	-	2,890	2,890	21	45,262	48,173	
-	-	397	397	-	40,932	41,329	
-	-	-	-	14	11,589	11,603	
-	-	-	-	-	9,962	9,962	
-	-	-	-	-	20,014	20,014	
440	-	406	846	154	7,857	8,857	
-	-	2,362	2,362	110	40,636	43,108	
-	-	499	499	15	21,005	21,519	
-	(618)	11,661	11,043	82	(952)	10,173	
-	-	579	579	-	16,355	16,934	
\$ 440	\$ -	\$ 18,794	\$ 19,234	\$ 1,593	\$ 600,197	\$ 621,024	

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

Schedule 9

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2015**

Shared Revenue

State

County program aid	\$	280,242
County Aquatic Invasive Species Prevention Aid		7,154
Disparity reduction aid		51,933
Enhanced 911		73,587
Highway users tax		1,058,562
Market value credit		99,363
PERA rate reimbursement		8,965
Police state aid		47,854
		47,854

Total Shared Revenue **\$ 1,627,660**

Payments

Payments in lieu of taxes	\$	10,052
		10,052

Grants

State

Minnesota Department/Board of

Human Services	\$	202,850
Natural Resources		49,461
Pollution Control Agency		119,630
Public Safety		25,402
Veterans Affairs		7,500
Water and Soil Resources		32,489
		32,489

Total State **\$ 437,332**

Federal

Department of

Agriculture	\$	49,142
Health and Human Services		443,194
Homeland Security		19,762
Transportation		630,861
		630,861

Total Federal **\$ 1,142,959**

Total Grants **\$ 1,580,291**

Total Intergovernmental Revenue **\$ 3,218,003**

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

Schedule 10

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ 49,142
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 630,861
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 1,320
Temporary Assistance for Needy Families	93.558	25,159
Child Support Enforcement	93.563	119,677
Refugee and Entrant Assistance	93.566	82
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	1,558
Stephanie Tubbs Jones Child Welfare Services Program	93.645	871
Foster Care Title IV-E	93.658	94,092
Social Services Block Grant	93.667	36,243
Chafee Foster Care Independence Program	93.674	1,349
Children's Health Insurance Program	93.767	18
Medical Assistance Program	93.778	162,825
Total U.S. Department of Health and Human Services		\$ 443,194
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Disaster Grants - Public Assistance	97.036	\$ 256
Hazard Mitigation Grant	97.039	2,900
Emergency Management Performance Grants	97.042	16,606
Total U.S. Department of Homeland Security		\$ 19,762
Total Federal Awards		\$ 1,142,959

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

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

I. Reporting Entity

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

II. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Red Lake County under programs of the federal government for the year ended December 31, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Red Lake County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Red Lake County.

III. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Mahnomen County has elected to not use the 10 percent de minimis indirect cost rate allowed under Uniform Guidance.

IV. Subrecipients

During 2015, the County did not pass any federal money to subrecipients. All Federal money received by Red Lake County was passed through the State of Minnesota.

MANAGEMENT AND COMPLIANCE SECTION

**RED LAKE COUNTY
THIEF RIVER FALLS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unmodified opinion on the financial statements of Red Lake County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Red Lake County and are reported in the "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*." The significant deficiencies were not material weaknesses.
- C. No instances of noncompliance material to the financial statements of Red Lake County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance"
- E. The Auditor's Report on Compliance for the major federal award program for Red Lake County expresses an unmodified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program was: Highway Planning & Construction CFDA #20.205.
- H. The threshold for distinguishing between Types A and B programs was \$750,000.
- I. Red Lake County was determined not to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

1996-004 Segregation of Duties

Criteria: The management of Red Lake County is responsible for establishing and maintaining internal control. This responsibility includes the internal controls over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system, and where segregation of duties may not be cost effective, compensating controls should be in place.

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

**Schedule 11
(Continued)**

Condition: Due to the limited number of personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Generally, one person is responsible for the financial information and activity within County departments.

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

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

Cause: This is not unusual in operations the size of the County, where, because of staffing limitations, it is impractical to achieve a desirable level of segregation of duties. Management has determined that, given limited resources, it is not feasible to achieve the desired level of segregation of duties.

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

2007-001 Internal Controls

Criteria: The financial statements are the responsibility of Red Lake County's management. Internal control over financial reporting is a process designed to provide reliable assurance about the achievement of the County's objectives with regard to reliability of financial reporting, and compliance with applicable laws and regulations. These controls must include a process for risk assessment and monitoring to ensure effectiveness and efficiency of operations.

Condition: Internal controls over financial reporting and the safeguarding of assets against unauthorized acquisition, use, or disposition include controls related to financial reporting and operational objectives. The County does not have a process for risk assessment and monitoring to ensure the internal controls are effective.

Context: Although Red Lake County has a system of internal control in spite of limited staff, they do not have written documentation of the process for monitoring those controls.

Effect: Without a documented process for monitoring internal controls, the County cannot provide assurance about the reliability of financial reporting or the effectiveness and efficiency of operations.

Cause: The County has never formalized its policies and procedures for internal controls and monitoring of those controls into a written comprehensive document.

Recommendation: We recommend the County formalize written documentation of their internal controls, including an assessment on risk and the process used to minimize the risks, and the monitoring process to ensure the reliability of financial reporting and the effectiveness and efficiency of operations.

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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***

Independent Auditor’s Report

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, 2015, and the related notes to the financial statements, which collectively comprise the County’s basic financial statements, and have issued our report thereon dated August 10, 2016.

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 over financial reporting.

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, over financial reporting 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*. 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.

Red Lake County's Responses to Findings

Red Lake 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 over financial reporting, 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 over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Hoffman, Philipp, & Knutson, PLLC

August 10, 2016

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

Independent Auditor's Report

Board of County Commissioners
Red Lake County

Report on Compliance for the Major Federal Programs

We have audited Red Lake County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2015. The County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on the Major Federal Programs

In our opinion, Red Lake County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2015.

Report on Internal Control Over Compliance

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

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

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

Purpose of This Report

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



Hoffman, Philipp, & Knutson, PLLC

August 10, 2016