

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

YEAR ENDED DECEMBER 31, 2018



Hoffman, Philipp, & Knutson, PLLC

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

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INTRODUCTORY SECTION

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

**ORGANIZATION SCHEDULE
DECEMBER 31, 2018**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1 st District	David K. Sorensen *	January 2019
2 nd District	Ron Weiss **	January 2021
3 rd District	John B. Lerohl	January 2019
4 th District	Anthony Flage ⁱ	January 2019
5 th District	Charles Simpson	January 2021
<i>*Chair</i>		
<i>**Vice-Chair</i>		
Officers		
Elected:		
Attorney	Mike Lacoursiere	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 2020
Medical Examiner	Dr. Mary Ann Sens	June 2020
Highway Engineer	Jerilyn Swenson ⁱⁱ	Interim
Veterans Service Officer	Kurtis Ellefson	December 2019
Environmental Services Director	Kurt Casavan	Indefinite
Social Services Board		
Chair	David Sorensen	January 2019
Vice-Chair	Charles Simpson	January 2021
Secretary	Ron Weiss	January 2019
Member	John Lerohl	January 2019
Member	Allen Remick	January 2021
Director	Kristi Nelson	Indefinite

ⁱ Appointed July, 2018. Replaced Allen Remick.

ⁱⁱ Appointed Interim County Engineer May, 2018. Replaced Courtney Kleven.

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, 2018, 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 over financial reporting 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 over financial reporting 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Red Lake County, Minnesota, as of December 31, 2018, 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.

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.

Other 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, the introductory section, 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and 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 introductory and other schedules sections have not been subjected to auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2021, on our consideration of Red Lake County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.



Hoffman, Philipp, & Knutson, PLLC
February 1, 2021

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, 2018. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The total net position of governmental activities is \$49,126,626, of which \$36,429,185 is the net investment in capital assets, \$12,142,103 is restricted for specific purposes, and \$555,338 is unrestricted. The total net position of governmental activities increased by \$2,207,832 for the year ended December 31, 2018. This is attributed mainly due to the addition of infrastructure due to road and bridge construction financed by State-aid.

At the close of 2018, the County's governmental funds reported combined ending fund balances of \$5,219,973, a decrease of \$88,392 from the prior year. Of the total fund balance amount, \$466,760 is non-spendable, \$1,102,188 is legally or contractually restricted, \$2,473,211 is formally committed for specific purposes, and \$1,177,814 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 is combined into a single, aggregated presentation. Individual fund data for this nonmajor fund is provided in combining statements after the notes to the financial statements.

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

Fiduciary Funds Fiduciary funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, or other funds. Red Lake County's fiduciary funds consist of 12 agency funds. Agency funds are custodial in nature (assets equal liabilities)

and do not involve measurement of results of operations. In addition, the Agency Funds are not reflected in the government-wide financial statements because those resources are not available to support the County's programs. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All fiduciary activities are reported in Statement 1, 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 19 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 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 \$49,126,626 at the close of 2018. The largest portion of the County's net position (approximately 74 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 25 percent of the County's net position is restricted, and 1 percent of the County's net position is unrestricted. The unrestricted net position amount of \$555,338 as of December 31, 2018, may be used to meet the County's ongoing obligations to citizens.

The County's overall financial position increased from last year. Total assets increased by \$2,387,571 from the prior year, deferred outflows of resources related to other post-employment benefits and pensions decreased by \$987,847, total liabilities decreased by \$222,462 from the prior year, and deferred inflows of resources related to pensions decreased by \$585,646. This resulted in an increased net position of \$2,207,832 from the prior year.

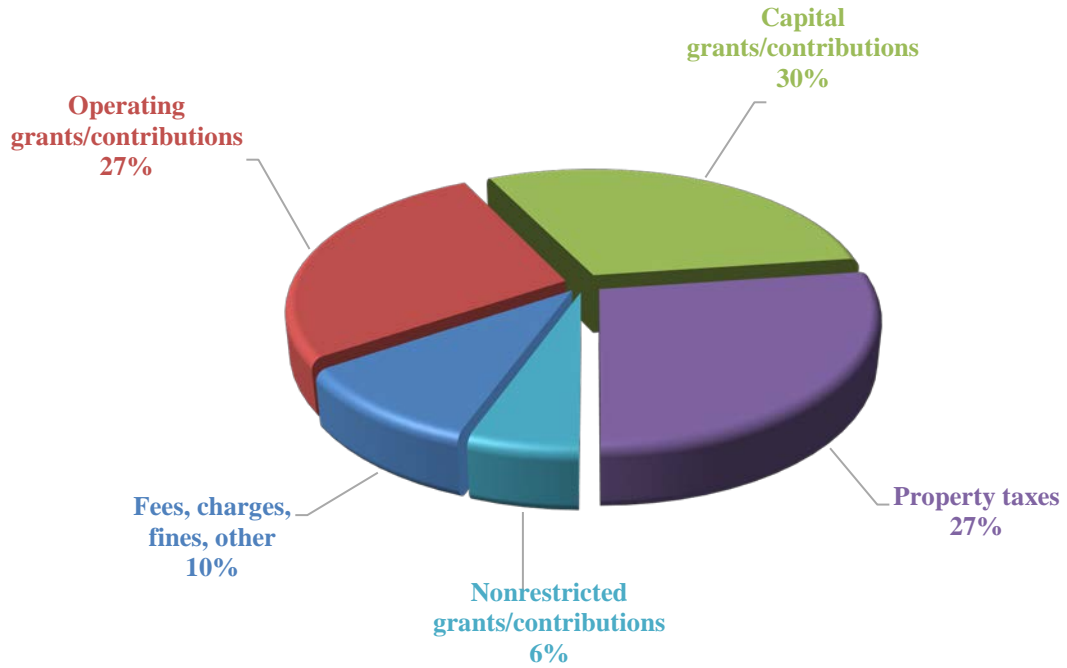
NET POSITION

	Governmental Activities	
	2018	2017
Current and other assets	\$ 16,620,286	\$ 14,457,557
Special assessments - noncurrent	18,877	28,315
Capital assets	36,429,185	36,194,905
Total assets	\$ 53,068,348	\$ 50,680,777
Deferred outflows - related to other post-employment benefits and pensions	\$ 1,127,112	\$ 2,114,959
Other liabilities	\$ 820,914	\$ 526,864
Long-term liabilities outstanding	2,743,951	3,260,463
Total liabilities	\$ 3,564,865	\$ 3,787,327
Deferred inflows - related to pensions	\$ 1,503,969	\$ 2,089,615
Net position		
Net investment in capital assets	\$ 36,429,185	\$ 36,194,905
Restricted	12,142,103	10,068,254
Unrestricted	555,338	655,635
Total net position	\$ 49,126,626	\$ 46,918,794

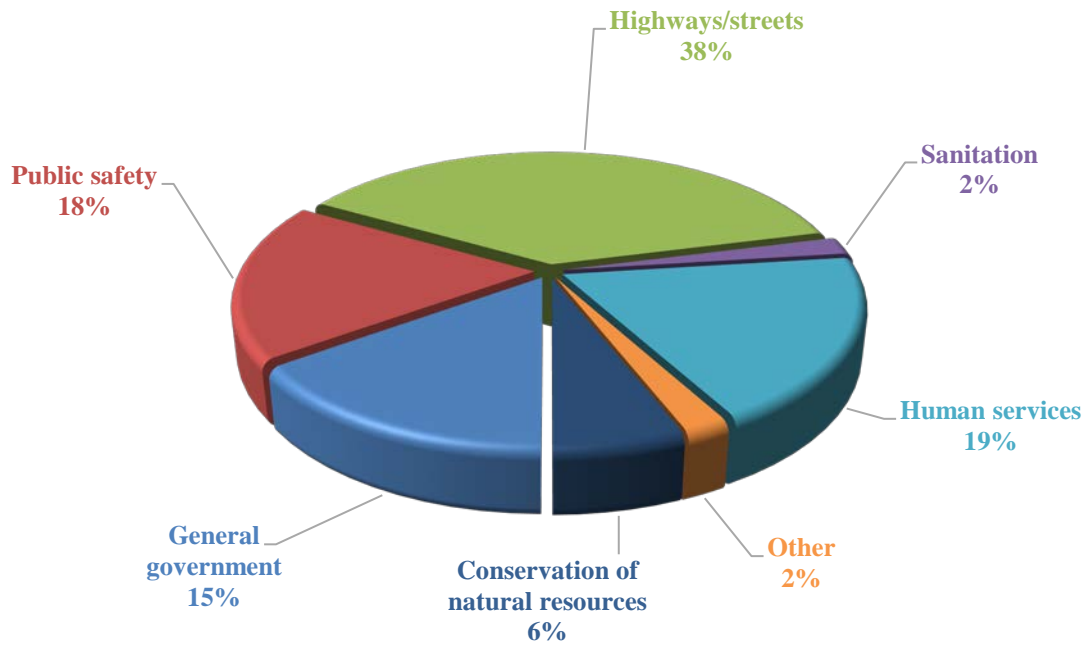
CHANGES IN NET POSITION

	Governmental Activities	
	2018	2017
Revenues		
Program Revenues		
Fees, charges, fines and other	\$ 1,022,605	\$ 985,783
Operating grants and contributions	2,825,556	2,837,225
Capital grants and contributions	3,115,464	1,844,934
General Revenues		
Property taxes	2,827,192	2,705,909
Grants and contributions not restricted to specific programs	569,548	281,172
Payments in lieu of taxes	13,257	13,225
Investment earnings	(47,857)	168,133
Miscellaneous	36,991	74,179
Total revenues	\$ 10,362,756	\$ 8,910,560
Expenses		
General government	\$ 1,230,191	\$ 1,176,101
Public safety	1,484,125	1,518,729
Highways and streets	3,076,842	2,934,927
Sanitation	162,340	197,885
Human services	1,547,786	1,552,299
Health	61,888	59,388
Culture and recreation	104,927	85,534
Conservation of natural resources	486,825	406,318
Economic development	-	59,729
Total expenses	\$ 8,154,924	\$ 7,990,910
Increase (decrease)	\$ 2,207,832	\$ 919,650
Net position, January 1, as previously reported	\$ 46,918,794	\$ 46,111,850
Prior period adjustment	-	(112,706)
Net position, January 1, as restated	46,918,794	45,999,144
Net position, December 31	\$ 49,126,626	\$ 46,918,794

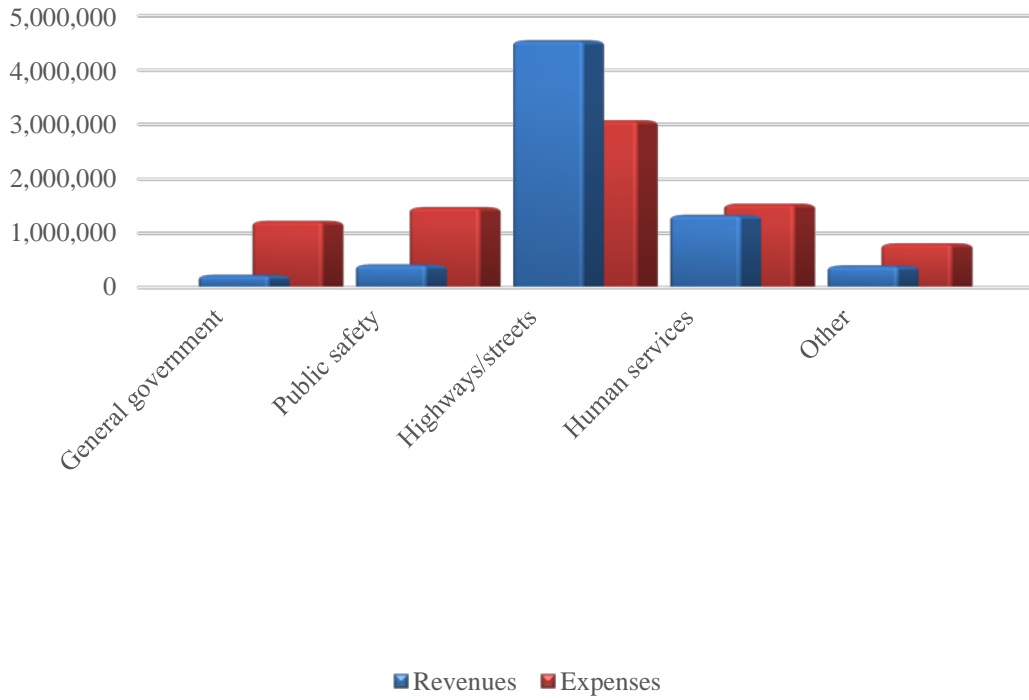
Revenues by Source



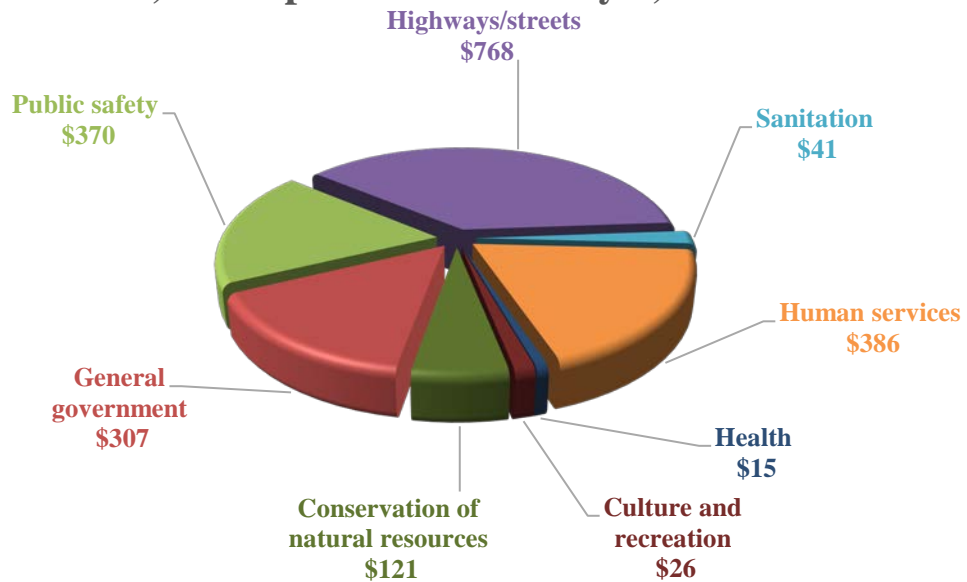
Expenses by Function



Program Revenues & Expenses



Expenditures Per Capita 4,008 Population as of July 1, 2018



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 of resources, deferred outflows of resources, 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 2018, the County's governmental funds reported combined ending fund balances of \$5,219,973. Of this amount, approximately 9 percent constitutes non-spendable fund balance, 21 percent constitutes legally or contractually restricted fund balance, 48 percent constitutes formally committed fund balance, and 22 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 \$1,998,403. The General Fund had no non-spendable fund balance. The restricted fund balance was \$352,424, the committed fund balance was \$1,390,645, and assigned fund balance was \$255,334. 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 2018. Unrestricted fund balance represents 48 percent of total General Fund expenditures, while total fund balance represents 58 percent of that same amount.

In 2018, the fund balance amount in the General Fund increased by \$374 as a result of careful monitoring of budgeted expenditures.

The fund balance of the Road and Bridge Special Revenue Fund decreased \$296,037 in 2018 due to unbudgeted construction expenditures.

The fund balance of the Social Services Special Revenue Fund increased \$211,260 from the prior year due to expenditures under budget.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the original budget as approved for 2018.

Actual revenues were less than overall final budgeted revenues by \$94,570, with the largest variance in investment earnings due to the sale of a long-term investment. Actual expenditures were less than overall final budgeted expenditures by \$102,907, with the largest variance in general government.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2018, amounted to \$36,429,185 (net of accumulated depreciation). The total increase in the County's investment in capital assets for the current fiscal year was one percent, due to infrastructure construction.

	Governmental Activities	
	2018	2017
Land	\$ 997,274	\$ 997,274
Construction in progress	284	49,390
Infrastructure	34,104,531	33,830,436
Buildings and improvements	175,996	197,522
Machinery and equipment	1,151,100	1,120,283
Total capital assets	<u>\$ 36,429,185</u>	<u>\$ 36,194,905</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.
- Red Lake County's unemployment rate was 5 percent as of December, 2018. This is higher than the statewide rate of 3.3 percent and the national average rate of 3.7 percent.
- Red Lake County's population according to the United States Census Bureau at July 1, 2018 was 4,008, a decrease of 81 since the census of 2010. This ranks Red Lake County 85th of 87 in the State of Minnesota.
- On December 24, 2018, Red Lake County set its 2019 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.
- For 2020, the most significant challenge will be adjusting to the impacts of the worldwide Coronavirus pandemic. The total extent of the impact on the County, both financially and operationally, are still uncertain at this time.

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, 2018**

	Governmental Activities
<u>Assets</u>	
Cash and pooled investments	\$ 4,399,619
Cash with fiscal agent	8,196
Investments	821,991
Taxes receivable - prior	74,339
Special assessments receivable - prior	2,015
Accounts receivable	8,289
Accrued interest receivable	5,719
Due from other governments	10,833,358
Inventories	466,760
Special assessments - noncurrent	18,877
Capital assets	
Non-depreciable	997,558
Depreciable - net of accumulated depreciation	35,431,627
	\$ 53,068,348
<u>Deferred Outflows of Resources</u>	
Related to other post-employment benefits	\$ 13,832
Related to pensions	1,113,280
	\$ 1,127,112
<u>Liabilities</u>	
Current	
Accounts payable	\$ 79,377
Salaries payable	130,501
Contracts payable	367,487
Due to other governments	33,900
Compensated absences	209,649
Noncurrent	
Compensated absences	144,479
Other post-employment benefits	200,619
Net pension liability	2,398,853
	\$ 3,564,865
<u>Deferred Inflows of Resources</u>	
Related to pensions	\$ 1,503,969
<u>Net Position</u>	
Net investment in capital assets	\$ 36,429,185
Amounts restricted for	
General government	59,117
Public safety	3,137
Highways and streets	11,064,752
Conservation of natural resources	946,848
Economic development	68,249
Unrestricted amounts	555,338
	\$ 49,126,626

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

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	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	\$ 1,230,191	\$ 120,289	\$ 115,829	\$ -	\$ (994,073)
Public safety	1,484,125	117,426	309,951	-	(1,056,748)
Highways and streets	3,076,842	176,000	1,259,504	3,115,464	1,474,126
Sanitation	162,340	56,270	75,716	-	(30,354)
Human services	1,547,786	435,538	906,020	-	(206,228)
Health	61,888	-	-	-	(61,888)
Culture and recreation	104,927	-	73,707	-	(31,220)
Conservation of natural resources	486,825	111,943	84,829	-	(290,053)
Economic development	-	5,139	-	-	5,139
Total governmental activities	\$ 8,154,924	\$ 1,022,605	\$ 2,825,556	\$ 3,115,464	\$ (1,191,299)
General revenues					
Property taxes					\$ 2,827,192
Grants and contributions not restricted to specific programs					569,548
Payments in lieu of taxes					13,257
Investment earnings					(47,857)
Miscellaneous					36,991
Total general revenues					\$ 3,399,131
Change in net position					\$ 2,207,832
Net position - January 1					46,918,794
Net position - December 31					\$ 49,126,626

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

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	<u>General Fund</u>	<u>Road and Bridge Special Revenue Fund</u>	<u>Social Services Special Revenue Fund</u>	<u>Nonmajor Ditch Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Cash and pooled investments	\$ 2,453,498	\$ 105,913	\$ 1,620,947	\$ 768,381	\$ 4,948,739
Cash with fiscal agent	8,196	-	-	-	8,196
Investments	73,695	748,296	-	-	821,991
Taxes receivable - prior	50,585	13,780	9,974	-	74,339
Special assessments receivable - prior	75	-	-	1,940	2,015
Accounts receivable	1,667	6,622	-	-	8,289
Accrued interest receivable	4,722	997	-	-	5,719
Due from other funds	43,026	6,755	-	-	49,781
Due from other governments	36,572	10,675,407	116,491	4,888	10,833,358
Inventories	-	466,760	-	-	466,760
Special assessments - noncurrent	18,877	-	-	-	18,877
Total Assets	\$ 2,690,913	\$ 12,024,530	\$ 1,747,412	\$ 775,209	\$ 17,238,064
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 3,777	\$ 46,600	\$ 29,000	\$ -	\$ 79,377
Salaries payable	70,388	27,772	32,341	-	130,501
Due to other funds	6,755	16,923	3,976	22,127	49,781
Due to other governments	5,167	3,622	23,733	1,378	33,900
Contracts payable	-	367,487	-	-	367,487
Total Liabilities	\$ 86,087	\$ 462,404	\$ 89,050	\$ 23,505	\$ 661,046
Deferred Inflows of Resources					
Taxes	\$ 38,351	\$ 10,447	\$ 7,562	\$ -	\$ 56,360
Special assessments	18,952	-	-	1,940	20,892
County State Aid Highway Allotment	-	10,730,673	-	-	10,730,673
Total Deferred Inflows of Resources	\$ 57,303	\$ 10,741,120	\$ 7,562	\$ 1,940	\$ 10,807,925
Fund Balances					
Non-spendable	\$ -	\$ 466,760	\$ -	\$ -	\$ 466,760
Restricted	352,424	-	-	749,764	1,102,188
Committed	1,390,645	354,246	728,320	-	2,473,211
Assigned	255,334	-	922,480	-	1,177,814
Total Fund Balances	\$ 1,998,403	\$ 821,006	\$ 1,650,800	\$ 749,764	\$ 5,219,973
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,141,793	\$ 12,024,530	\$ 1,747,412	\$ 775,209	\$ 16,688,944

**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, 2018**

Fund balances - total governmental funds (Exhibit 3)	\$	5,219,973
<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>		36,429,185
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.</p>		10,807,925
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
<p style="padding-left: 40px;">Compensated absences payable</p> <p style="padding-left: 40px;">Other post-employment benefits</p>		(354,128)
<p>Other post-employment benefits and related outflows/inflows of resources represent the allocation of the other post employment benefit obligations to the County. Such balances are not reported in the governmental funds:</p>		
<p>Deferred outflows of resources related to other post-employment benefits</p>	\$ 13,832	
<p>Other post-employment benefits</p>	(200,619)	(186,787)
<p>Net pension liability and related outflows/inflows of resources represent the allocation of the pension obligations of the statewide plans to the County. Such balances are not reported in the governmental funds:</p>		
<p>Deferred outflows of resources related to pensions</p>	\$ 1,113,280	
<p>Deferred inflows of resources related to pensions</p>	(1,503,969)	
<p>Net pension liability</p>	(2,398,853)	(2,789,542)
Net position of governmental activities (Exhibit 1)	\$	<u>49,126,626</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, 2018**

	General Fund	Road and Bridge Special Revenue Fund	Social Services Special Revenue Fund	Nonmajor Ditch Special Revenue Fund	Total Governmental Funds
Revenues					
Taxes	\$ 1,966,323	\$ 505,438	\$ 342,519	\$ -	\$ 2,814,280
Special assessments	10,465	-	-	90,949	101,414
Licenses and permits	6,152	-	-	-	6,152
Intergovernmental	1,080,476	2,497,914	972,470	-	4,550,860
Charges for services	267,889	162,733	139,660	78,668	648,950
Investment earnings	(61,159)	13,302	-	-	(47,857)
Miscellaneous	85,647	13,267	291,364	-	390,278
Total Revenues	\$ 3,355,793	\$ 3,192,654	\$ 1,746,013	\$ 169,617	\$ 8,464,077
Expenditures					
Current					
General government	\$ 1,241,804	\$ -	\$ -	\$ -	\$ 1,241,804
Public safety	1,411,591	-	-	-	1,411,591
Highways and streets	-	3,287,195	-	-	3,287,195
Sanitation	145,584	-	-	-	145,584
Human services	24,752	-	1,460,855	-	1,485,607
Health	61,888	-	-	-	61,888
Culture and recreation	104,927	-	-	-	104,927
Conservation of natural resources	364,281	-	-	122,544	486,825
Capital outlay					
General government	26,810	-	-	-	26,810
Public safety	34,289	-	-	-	34,289
Highways and streets	-	201,496	-	-	201,496
Human services	-	-	7,409	-	7,409
Sanitation	5,982	-	-	-	5,982
Total Expenditures	\$ 3,421,908	\$ 3,488,691	\$ 1,468,264	\$ 122,544	\$ 8,501,407
Excess of Revenues Over (Under) Expenditures	\$ (66,115)	\$ (296,037)	\$ 277,749	\$ 47,073	\$ (37,330)
Other Financing Sources (Uses)					
Transfers in	\$ 66,489	\$ -	\$ -	\$ -	\$ 66,489
Transfers out	-	-	(66,489)	-	(66,489)
Total Other Financing Sources (Uses)	\$ 66,489	\$ -	\$ (66,489)	\$ -	\$ -
Net Change in Fund Balance	\$ 374	\$ (296,037)	\$ 211,260	\$ 47,073	\$ (37,330)
Fund Balance - January 1	1,998,029	991,321	1,439,540	702,691	5,131,581
Increase (decrease) in inventories	-	125,722	-	-	125,722
Fund Balance - December 31	\$ 1,998,403	\$ 821,006	\$ 1,650,800	\$ 749,764	\$ 5,219,973

**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, 2018**

Net change in fund balances - total governmental funds (Exhibit 5) **\$ (37,330)**

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

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.

Expenditures for general capital assets and infrastructure	\$ 1,420,155	
Current year depreciation	<u>(1,185,875)</u>	234,280

Revenues in the Statement of Activities that do not provide current
financial resources are not reported as revenues in the governmental funds.

Change in deferred inflows of resources		1,884,463
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Some expenses reported in the Statement of Activities do not require the
use of current financial resources and, therefore, are not reported as
expenditures in governmental funds.

Change in		
Inventories	\$ 125,722	
Compensated absences payable	<u>(186,380)</u>	(60,658)

Other post employment benefit 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.

157,100

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.

29,977

Change in net position of governmental activities (Exhibit 2)		<u>\$ 2,207,832</u>
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**RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2018**

	<u>Agency (Statement 1)</u>
<u>Assets</u>	
Cash and pooled investments	\$ 63,165
Accounts receivable	42,556
Due from other governments	<u>29,966</u>
Total Assets	<u>\$ 135,687</u>
<u>Liabilities</u>	
Accounts payable	\$ 14,068
Due to other governments	<u>121,619</u>
Total Liabilities	<u>\$ 135,687</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018**

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 D, E, and F, 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 non-major fund:

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.

Additionally, the County reports the following fund type:

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

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

I. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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 property tax revenues to be available if they are collected within 60 days after the end of the current period. Intergovernmental revenues, charges for services, licenses and permits, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for 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, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2018, based on market prices. Pursuant to Minnesota Statute, § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Total investment earnings for 2018 were (\$47,857) due to the early sale of a long-term investment.

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.

Taxes and special assessments receivable consist of uncollected taxes and special assessments payable in the years 2006 through 2018 and deferred special assessments collectible in 2019 and beyond. Taxes and special assessments receivable are offset by deferred inflows of resources for the amount not collected within 60 days of December 31 to indicate they are not available to finance current expenditures.

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

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

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

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

I. Summary of Significant Accounting Policies

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

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.

4. Capital Assets

Capital assets, which include land, construction in progress, 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 acquisition value at the date of acquisition.

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. During the current period, the County did not have any capitalized interest.

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/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 Statement of Net Position in relation to the activity of other post-employment benefits and 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.

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

I. Summary of Significant Accounting Policies

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

5. Deferred Outflows/Inflows of Resources (Continued)

The County reports delinquent property taxes and special assessments, special assessments levied for subsequent years, and County State Aid Highway Allotments as deferred inflows of resources in the governmental fund financial statements in accordance with the modified accrual basis of accounting. In addition, the County reports deferred inflows of resources in the government-wide 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.

6. Compensated Absences

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.

7. Other Postemployment Benefits (OPEB)

Under Minnesota statute 471.61, subdivision 2b, public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in a group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees are able to add dependent coverage during open enrollment period or qualifying life event prior to retirement. All premiums are funded on pay-as-you-go basis. The liability was determined, in accordance with GASB Statement No. 75, at January 1, 2018. The General Fund, Road and Bridge Special Revenue Fund, and Social Services Special Revenue Fund are typically used to liquidate governmental other postemployment benefits payable.

8. Pension Plan

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

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

I. Summary of Significant Accounting Policies

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

9. Net Position and Fund Balance

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

Net investment in capital assets – represents capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – the amount of net position that does not meet the definition of restricted or net investment of capital assets.

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

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

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

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

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

Unassigned – includes positive fund balance within the General Fund, which has not been classified within the above-mentioned categories, and negative fund balances in other governmental funds. The County reported no unassigned fund balances at December 31, 2018.

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

I. Summary of Significant Accounting Policies

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

9. Net Position and Fund Balance (Continued)

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, 2018.

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.

10. 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.

II. Stewardship, Compliance, and Accountability

A. Land Management

The County manages approximately 394 acres of state-owned tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

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

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

Reconciliations of the County’s total deposits and investments to the basic financial statements, as of December 31, 2018, are as follows:

Governmental Funds	
Cash and pooled investments	\$ 4,399,619
Cash with fiscal agent	8,196
Investments	821,991
Fiduciary Funds	
Cash and pooled investments	63,165
Total cash and investments	\$ 5,292,971
Cash on hand	\$ 750
Checking accounts	272,032
Cash with fiscal agent	8,196
Savings accounts	844,873
Investments	4,167,120
Total deposits and investments	\$ 5,292,971

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. Red Lake County’s policy is to minimize exposure to custodial credit risk by limiting investments to certain types of securities as listed in their policy, and to obtain documentation of pledged collateral from their financial institutions. As of December 31, 2018, 58.32 percent of the County’s deposits were exposed to custodial credit risk.

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

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

Investments

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

- (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. Red Lake County's policy is to minimize interest rate risk by structuring investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The County invests in both short-term and long-term investments so that a portion of the portfolio matures evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

Interest Rate Risk (Continued)

At December 31, 2018, 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>
Government Bonds	\$ 1,869,149	\$ 1,029,303	\$ 641,388	\$ 198,458
Negotiable Certificates of Deposit	1,025,502	488,196	537,306	-
Minnesota Municipal Money Market Funds	12,638	12,638	-	-
Cash/Money Market Funds	<u>1,259,831</u>	<u>1,259,831</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 4,167,120</u>	<u>\$ 2,789,968</u>	<u>\$ 1,178,694</u>	<u>\$ 198,458</u>
	100%	67%	28%	5%

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, 2018, is as follows:

	<u>S & P Rating</u>	<u>Fair Value</u>
Government Bonds	AAA	\$ 1,869,149
Negotiable Certificates of Deposit	N/A	1,025,502
Minnesota Municipal Money Market Funds	N/A	12,638
Cash/Money Market Funds	N/R	<u>1,259,831</u>
		<u>\$ 4,167,120</u>

N/R – not rated

N/A – not applicable

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

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and 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. Red Lake County's policy is to minimize custodial credit risk. Some brokers have excess SIPC coverage which may mitigate all or part of custodial credit risk. At December 31, 2018, the County had \$1,170,691 invested in government securities and \$1,259,671 invested with Wells Fargo Advisors which may be subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer, excluding U.S. guaranteed investments, investment pools, and mutual funds. Red Lake County's policy is to minimize concentration of credit risk. At December 31, 2018, \$728,294 in negotiable certificates of deposit were subject to concentration of credit risk.

Fair Value Measurement

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

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

At December 31, 2018, the County had the following recurring fair value measurements:

	December 31, 2017	Assets (Level 1)	Inputs (Level 2)
Investments by fair value level			
Government bonds	\$ 1,869,149	\$ 1,869,149	\$ -
Money market funds	1,272,469	1,272,469	-
Negotiable certificates of deposit	1,025,502	-	1,025,502
Total Investments	<u>\$ 4,167,120</u>	<u>\$ 3,141,618</u>	<u>\$ 1,025,502</u>

All Level 2 debt securities are valued using a market approach based on the securities' relationship to benchmark quoted prices. The County had no level 3 investments.

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

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

2. Receivables

Receivables as of December 31, 2018, 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	\$ 74,339	\$ -
Special assessments	20,892	18,877
Accounts	8,289	-
Accrued interest	5,719	-
Due from other governments	10,833,358	-
Total	\$ 10,942,597	\$ 18,877

3. Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 997,274	\$ -	\$ -	\$ 997,274
Construction in progress	49,390	29,020	78,126	284
Total capital assets not depreciated	\$ 1,046,664	\$ 29,020	\$ 78,126	\$ 997,558
Capital assets being depreciated				
Infrastructure	\$ 50,716,112	\$ 1,222,295	\$ -	\$ 51,938,407
Buildings and improvements	1,326,653	-	-	1,326,653
Machinery and equipment	3,318,215	246,966	155,018	3,410,163
Total capital assets being depreciated	\$ 55,360,980	\$ 1,469,261	\$ 155,018	\$ 56,675,223
Less: accumulated depreciation for				
Infrastructure	\$ 16,885,676	\$ 948,200	\$ -	\$ 17,833,876
Buildings and improvements	1,129,131	21,526	-	1,150,657
Machinery and equipment	2,197,932	216,149	155,018	2,259,063
Total accumulated depreciation	\$ 20,212,739	\$ 1,185,875	\$ 155,018	\$ 21,243,596
Total capital assets, depreciated, net	\$ 35,148,241	\$ 283,386	\$ -	\$ 35,431,627
Governmental Activities Capital Assets, Net	\$ 36,194,905	\$ 312,406	\$ 78,126	\$ 36,429,185

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

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

3. Capital Assets (Continued)

Depreciation Expense

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

General government	\$	7,981
Public safety		72,137
Highways and streets, including depreciation of infrastructure assets		1,086,101
Human services		12,372
Sanitation		7,284
Total Depreciation Expense	\$	1,185,875

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2018, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	
General Fund	Road and Bridge Special Revenue Fund Social Services Special Revenue Fund Ditch Special Revenue Fund	\$ 16,923 3,976 22,127	Reimbursement Reimburse personnel costs Ditch 10 collections
Total Due to General Fund:		\$ 43,026	
Road & Bridge Special Revenue Fund	General Fund	6,755	Interest received to wrong fund
Total Due To/From Other Funds		\$ 49,781	

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Operating Transfer To/From Other Funds

Receivable Fund	Payable Fund	Amount	
General Fund	Social Services Special Revenue Fund Social Services Special Revenue Fund	\$ 16,249 50,240	Reimburse personnel costs Rent
Total Operating Transfer to General Fund:		\$ 66,489	

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

III. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2018 were as follows:

Accounts	\$	79,377
Salaries		130,501
Contracts		367,487
Due to other governments		<u>33,900</u>
 Total Payables	 \$	 <u><u>611,265</u></u>

All payables amounts are scheduled for payment during the subsequent year.

2. 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. Maximum vacation earnings are 192 hours for 0-4 year anniversary dates, 288 hours for 5-9 year anniversary dates, and 384 hours after the 9th anniversary date. Maximum sick leave earnings are 720 hours. For each month an employee maintains their maximum sick leave accumulation, an additional half day of vacation shall be added to their vacation accrual. At severance, employees may receive half of their sick leave accumulation with a maximum pay out of 360 hours. Employees are also able to accrue a sick bank which is their accrual or sick leave over 720 hours. This sick bank may only be used once the entire sick leave balance is exhausted.

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 \$114,169 at December 31, 2018, is available to employees in the event of illness-related absences and is not paid to them at termination.

3. Long-Term Debt and Liabilities

Red Lake County has no long-term debt at December 31, 2018.

Long-term liability for activity for the governmental activities for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 167,748	\$ 219,138	\$ 32,758	\$ 354,128	\$ 144,479
OPEB Liability	178,519	-	-	200,619	-
Net Pension Liability	<u>2,844,863</u>	<u>-</u>	<u>446,010</u>	<u>2,398,853</u>	<u>-</u>
	<u><u>\$ 3,191,130</u></u>	<u><u>\$ 219,138</u></u>	<u><u>\$ 478,768</u></u>	<u><u>\$ 2,953,600</u></u>	<u><u>\$ 144,479</u></u>

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

III. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Deferred Inflows of Resources

Deferred inflows of resources consist of taxes, special assessments, and County State Aid Highway Allotments (CSAH) not collected soon enough after year-end to pay liabilities of the current period, and other receivables received but not yet earned. Deferred inflows of resources at December 31, 2018, are summarized below by fund:

	Taxes	Special Assessments	CSAH	Total
Governmental funds				
General	\$ 38,351	\$ 18,952	\$ -	\$ 57,303
Road & Bridge	10,447	-	10,730,673	10,741,120
Social Services	7,562	-	-	7,562
Ditch	-	1,940	-	1,940
	<u>-\$ 56,360</u>	<u>\$ 20,892</u>	<u>\$ 10,730,673</u>	<u>\$ 10,807,925</u>

D. Fund Balances

Fund balances at year-end December 31, 2018, were as follows:

	General Fund	Special Revenue Funds Road and Bridge	Social Services	Nonmajor Ditch Special Revenue Fund	Total Governmental Funds
Nonspendable					
Inventories	\$ -	\$ 466,760	\$ -	\$ -	\$ 466,760
Restricted for					
Attorney's forfeiture	\$ 1,285	\$ -	\$ -	\$ -	1,285
Conservation of natural resources	-	-	-	749,764	749,764
Gravel pit restoration	62,006	-	-	-	62,006
Landslide acquisition	68,249	-	-	-	68,249
Law library	3,630	-	-	-	3,630
Recorder's equipment	54,202	-	-	-	54,202
Recorder's technology	24,837	-	-	-	24,837
Riparian Protection Aid	135,078	-	-	-	135,078
Sheriff's contingent fund	3,002	-	-	-	3,002
Sheriff's forfeited property	135	-	-	-	135
Total restricted	<u>\$ 352,424</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 749,764</u>	<u>\$ 1,102,188</u>
Committed to					
Future expenditures	\$ 1,390,645	\$ 354,246	\$ 628,320	\$ -	\$ 2,373,211
Building improvements	-	-	100,000	-	100,000
Total committed	<u>\$ 1,390,645</u>	<u>\$ 354,246</u>	<u>\$ 728,320</u>	<u>\$ -</u>	<u>\$ 2,473,211</u>
Assigned to					
Public safety	\$ 255,334	\$ -	\$ -	\$ -	\$ 255,334
Social services	-	-	922,480	-	922,480
Total assigned	<u>\$ 255,334</u>	<u>\$ -</u>	<u>\$ 922,480</u>	<u>\$ -</u>	<u>\$ 1,177,814</u>
Total Fund Balances	<u>\$ 1,998,403</u>	<u>\$ 821,006</u>	<u>\$ 1,650,800</u>	<u>\$ 749,764</u>	<u>\$ 5,219,973</u>

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

IV. Other Post-Employment Benefits (OPEB)

A. 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.

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 2018, there were approximately 46 participants in the plan. The implicit rate subsidy amount was determined by an actuarial study to be \$13,832 for 2018.

B. Total OPEB Liability

The County's total OPEB liability of \$200,619 was determined by an actuarial valuation date and measurement date of January 1, 2019.

The total OPEB liability in the fiscal year-end December 31, 2018, actuarial valuation was determined using the following actuarial methods and assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation/Census Data Date:	January 1, 2018
Measurement Date:	January 1, 2018
Reporting Date:	December 31, 2018
Actuarial Cost Method:	Entry Age, level percentage of pay
Amortization of Deferred Resource Flows:	Average of expected remaining service on a closed basis for differences between expected and actual experience and assumption changes.
Discount Rate:	3.30%
20-Year Municipal Bond Yield:	3.30%
Inflation Rate:	2.50%
Salary Increases:	3.00%
Medical Trend Rate:	6.50% as of January 1, 2018, grading to 5.00% over 6 years

The current year discount rate is 3.30 percent, which is a change from the prior year rate of 4.00 percent. For the current valuation, the discount rate was selected from a range of the 20-year municipal bond yield. The municipal bond rate assumption of 3.30 percent was set by considering published rate information for 20-year high quality, tax-exempt, general obligation municipal bonds as of the measurement date. Mortality rates are based on RP-2014 tables (blue collar for public safety, white collar for others) with MP-2017 Generational Improvement Scale.

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

IV. Other Post-Employment Benefits (OPEB)

B. Total OPEB Liability (Continued)

The actuarial assumptions are based on input from a variety of published sources of historical and projected future financial data.

C. OPEB Liability Sensitivity

The following presents the total OPEB Liability of Red Lake County, calculated using the discount rate of 3.30%, as well as what the County's total OPEB Liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

Sensitivity Analysis			
OPEB Liability (Asset) at Different			
Discount Rates			
OPEB Sensitivity			
1% Lower	2.30%	\$	179,298
Current Discount Rate	3.30%	\$	200,619
1% Higher	4.30%	\$	225,892

The following presents the total OPEB liability of Red Lake County, calculated using the health care cost-trend of 6.25% decreasing to 5.00% over 5 years, as well as what the County's total OPEB Liability would be if it were calculated using health care trend rates that are 1.00 percentage point lower or 1.00 percentage point higher than the current health care cost trend rate:

OPEB Trend Rates			
OPEB Liability (Asset) at Healthcare Trend Rates			
1% Lower	5.25%	\$	216,634
Current Discount Rate	6.25%	\$	200,619
1% Higher	7.25%	\$	185,680

D. Fund Status and Funding Progress

Actuarial valuations for an ongoing plan involve 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 trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer 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)

E. Actuarial 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 actuarial 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.

In the January 1, 2018 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions include a 3.30% a year rate of investment return, compounded annually net after investment expense, which is the expected long-term investment return on plan assets, and a base payroll growth rate of 2.50%. There were also merit and seniority salary rate increase assumptions taken into consideration and those are detailed in the actuarial study and are based on age. There was also an inflationary rate assumption of 2.50% factored into the calculation for healthcare related costs. The UAAL is being amortized as a level dollar of active member payroll over a period of 30 years on an open period.

F. OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2019, the County recognized OPEB expense of \$21,511.

At December 31, 2019, Red Lake County reported its proportionate share of OPEB's deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability losses/gains	\$ -	\$ -
Assumption changes	-	-
Estimated employer contributions	13,832	-
Total	\$ 13,832	\$ -

The \$13,832 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended December 31, 2019.

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

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

F. Changes in Actuarial Assumptions, Plan Provisions, and Method

Assumption Changes:

The following changes in actuarial assumptions occurred in 2018:

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality tables were updated from the RP-2014 Mortality Tables with MP-2014 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire personnel) to the RP-2014 Mortality Tables with MP-2017 Generational Scale (with Blue Collar adjustment for Police and Fire personnel).
- The retirement and withdrawal tables for all employees were updated.
- The discount rate was changed from 4.00% to 3.30%.

Plan Changes:

Highway union employees are now covered under Local 49 health and welfare fund, not the County sponsored health insurance.

Method Changes:

The actuarial cost method was changed from projected unit credit to entry age as prescribed by GASB 75.

V. Defined Benefit Pension Plans

A. Plan Description

Red Lake County 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 Plan

Eligible full-time and certain part-time employees of Red Lake County are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

2. Public Employees Police and Fire Fund

The Police and Fire Plan, 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 Police and Fire Plan also covers police officers and

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

V. Defined Benefit Pension Plans

A. Plan Description

2. Public Employees Police and Fire Fund (Continued)

firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to PERA.

B. 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. 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.

1. General Employees Plan Benefits

General Employees Plan 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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years 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 for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a 1% increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

2. Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989 a full annuity is available when age plus years of service equal at least 90.

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

V. Defined Benefit Pension Plans

B. Benefits Provided

2. Police and Fire Plan Benefits

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0 percent increase. An annual adjustment will equal 2.5 percent any time the plan exceeds a 90 percent funded ratio for two consecutive years. If the adjustment is increased to 2.5 percent and the funded ratio falls below 80 percent for one year or 85 percent for two consecutive years, the post-retirement benefit increase will be lowered to once percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

C. Contributions

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

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in calendar year 2018. Red Lake County was required to contribute 7.50 percent for Coordinated Plan members. Red Lake County's contributions to the General Employees Fund for the year ended December 31, 2018, were \$169,203. Red Lake County's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.8 percent of their annual covered salary and Red Lake County was required to contribute 16.20 percent of pay for members in fiscal year 2018. Red Lake County's contributions to the Police and Fire Fund for the year ended December 31, 2018, were \$87,696. Red Lake County's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2018, Red Lake County reported a liability of \$1,858,443 for its proportionate share of the General Employees Fund's net pension liability. The net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with Red Lake County totaled \$60,962. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the date. Red Lake County's proportionate share of the net pension

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

V. Defined Benefit Pension Plans

D. Pension Costs

1. General Employees Fund Pension Costs (Continued)

liability was based on Red Lake County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018. At June 30, 2018, Red Lake County's proportionate share was .0335 percent which was a decrease of .0007 percent from its proportion measured as of June 30, 2017.

Proportionate share of the net pension liability	\$ 1,858,443
State of Minnesota's proportionate share of the net pension liability associated with Red Lake County	60,962
Total	\$ 1,919,405

There were no provision changes during the measurement period.

For the year ended December 31, 2018, Red Lake County recognized pension expense of \$96,606 for its proportionate share of the General Employees Plan's pension expense. In addition, Red Lake County recognized an additional \$14,216 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2018, Red Lake County reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 50,172	\$ 55,011
Changes in actuarial assumptions	180,178	211,803
Net collective difference between projected and actual investment earnings	-	192,909
Changes in proportion	17,189	33,516
Contributions paid to PERA subsequent to the measurement date	84,575	-
Total	\$ 332,114	\$ 493,239

\$84,575 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, 2019.

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

V. Defined Benefit Pension Plans

D. Pension Costs

1. General Employees Fund Pension Costs (Continued)

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:
2019	\$ 66,018
2020	\$ (109,063)
2021	\$ (163,866)
2022	\$ (38,789)

2. Police and Fire Fund Pension Costs

At December 31, 2018, Red Lake County reported a liability of \$540,410 for its proportionate share of the Police and Fire Fund’s net pension liability. The net pension liability was measured as of June 30, 2018, 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 proportionate share of the net pension liability was based on the Red Lake County’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all PERA’s participating employers. At June 30, 2018, Red Lake County’s proportionate share was .051 percent which decreased by .0017 percent from its proportionate share measured as of June 30, 2017. Red Lake County also recognized \$0 for the year ended December 31, 2018 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota’s on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota begin contribution \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

There were no provision changes during the measurement period.

For the year ended December 31, 2018, Red Lake County recognized pension expense of \$52,776 for its proportionate share of the Police and Fire Plan’s pension expense.

As of December 31, 2018, Red Lake County reported its proportionate share of the Police and Fire Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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RED LAKE FALLS, MINNESOTA**

V. Defined Benefit Pension Plans

D. Pension Costs

2. Police and Fire Fund Pension Costs (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 21,359	\$ 120,286
Changes in actuarial assumptions	609,580	769,485
Net collective difference between projected and actual investment earnings	-	120,959
Changes in proportion	106,591	-
Contributions paid to PERA subsequent to the measurement date	43,636	-
Total	\$ 781,166	\$ 1,010,730

\$43,636 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

December 31:	Amount:
2019	\$ (1,255)
2020	\$ (24,021)
2021	\$ (64,024)
2022	\$ (185,946)
2023	\$ 2,046

The total pension expense for all plans recognized by Red Lake County for the year ended December 31, 2018, was \$149,382.

E. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

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RED LAKE FALLS, MINNESOTA**

V. Defined Benefit Pension Plans

E. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants for all plans were based on RP-2014 tables males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan, 1.0 percent per year for the Police and Fire Plan, and 2.0 percent per year for the Correctional Plan.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. The most recent four-year experience study for the Police and Fire Plan was completed in 2016. The five-year experience study for the Correctional Plan, prepared by a former actuary, was completed in 2012. The mortality assumption for the Correctional Plan is based on the Police and Fire Plan experience study completed in 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

General Employees Retirement Fund

1. The mortality projection scale was changed from MP-2015 to MP-2017.
2. The assumed benefit increase was changed from 1.00 percent per year through 2044, and 2.50 percent per year thereafter to 1.25 percent per year.

Public Employees Police and Fire Fund

1. The mortality projection scale was changed from MP-2016 to MP-2017.
2. As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger.

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 geometric real rates of return for each major asset class are summarized in the following table:

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

V. Defined Benefit Pension Plans

E. Actuarial Assumptions (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds	20%	0.75%
Alternative Assets	25%	5.90%
Cash	2%	0.00%

F. Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund, the Police and Fire Fund, and the Correctional Fund were projected to be available to make all projected future benefit payments of current plan members. 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.

G. 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:

Sensitivity Analysis				Sensitivity Analysis			
Net Pension Liability (Asset) at Different Discount Rates				Net Pension Liability (Asset) at Different Discount Rates			
General Employees Fund				Police and Fire Fund			
1% Lower	6.50%	\$	3,020,207	1% Lower	6.50%	\$	1,158,672
Current Discount Rate	7.50%	\$	1,858,443	Current Discount Rate	7.50%	\$	540,410
1% Higher	8.50%	\$	899,439	1% Higher	8.50%	\$	29,132

H. 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.

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

VI. Defined Contribution Plan

Three employees are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by PERA. The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official’s employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount no to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member’s account annually.

Total contributions made by Red Lake County during fiscal year 2018 were:

Contribution Amount		Percentage of Cover Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$ 3,376	\$ 3,376	5%	5%	5%

VII. Summary of Significant Contingencies and Other Items

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 to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers’ Compensation and Property and Casualty Divisions. For group employee health benefits, the County has entered into a joint powers agreement, the Northwest Service Cooperative. For all other risk, the County carries

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

VII. Summary of Significant Contingencies and Other Items

B. Risk Management (Continued)

commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2018 and 2019. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

C. Subsequent Event

Subsequent to year end, the World Health Organization declared the spread of Coronavirus disease a worldwide pandemic. The pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the County, the pandemic may impact various parts of its 2020 operations and financial results including, but not limited to, costs for emergency preparedness and personnel costs. Management believes the County is taking appropriate action to mitigate the negative effects; however, the full impact of the pandemic is unknown and cannot be reasonably estimated as these events occurred subsequent to year end and are still developing.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") established the Coronavirus Relief Fund. On August 21, 2020, Red Lake County received \$531,102 from the Coronavirus Relief Fund to support local government coronavirus relief efforts. Red Lake County certified its intent to follow federal guidelines for the use of funds received, and any unspent funding was returned to the State by December 10, 2020.

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

VII. Summary of Significant Contingencies and Other Items

D. 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, Mahnomon, 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.

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 reports no contributions to the HSEM for the year ended December 31, 2018. 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, 2018. Red Lake 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

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

VII. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Inter-County Nursing Service (Continued)

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.

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 \$4,120 to the Waste Management Group for the year ended December 31, 2018. 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 County 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).

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

VII. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northwest Minnesota Regional Radio Board (Continued)

Control is vested in the Northwest Minnesota Regional Radio Board, which is composed of one county commissioner from each member county and one County council member from the member County, 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 reported no contributions to the NMRRB for the year ended December 31, 2018. 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 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, 2018. 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

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

VII. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northwest Service Cooperative (Continued)

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 County 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 paid \$250 in dues to the NWSC for the year ended December 31, 2018. 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.

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, 2018. 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, Pennington, Red Lake; 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.

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

VII. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Red Lake River Corridor (Continued)

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 2018. Complete financial information can be obtained from the St. Hilaire City Treasurer, 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 \$200,143 to the Community Corrections for the year ended December 31, 2018. Polk County, in an agent capacity, reports the cash transactions of the Community 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.

E. 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

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

VII. Summary of Significant Contingencies and Other Items

E. Related Organization

Northwest Minnesota Council of Collaboratives (Continued)

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 2018, Red Lake County contributed \$3,038 to the Council of Collaboratives.

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

F. 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.

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 2018, the County made no contributions to the Collaborative.

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

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

VII. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations

Job Training Partnership Act Joint Powers Agreement (Continued)

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 reported no contributions to the MCCC.

The Minnesota Rural Counties Caucus was established in 1997 and includes Becker, Beltrami, Clay, Clearwater, Itasca, Kittson, Lake of the Woods, Mahnomen, 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 reported \$2,200 in contributions to the Caucus for the year ended December 31, 2018.

Northwest Minnesota Multi-County Housing and Redevelopment Authority

The Northwest Minnesota Multi-County Housing and Redevelopment Authority (HRA) was formed pursuant to Minnesota Statute, § 469.004, effective September 1972, and includes Kittson, Marshall, Pennington, Polk, Red Lake, and Roseau Counties. Control of the HRA is vested in the HRA Board composed of six members with indefinite terms made up of one member appointed by each Board of County Commissioners. Red Lake County, in an agent capacity, reports the cash transactions of the HRA as an agency fund on the County's financial statements. During 2018, the County reports no contributions 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, 2018.

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

VII. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations (Continued)

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, Mahnommen, 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, in an agency capacity, reports tax collections for the Red Lake Watershed as an agency fund on its financial statements for the year ended December 31, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 2,011,721	\$ 2,011,721	\$ 1,966,323	\$ (45,398)
Special assessments	-	-	10,465	10,465
Licenses and permits	4,000	4,000	6,152	2,152
Intergovernmental	1,015,695	1,015,695	1,080,476	64,781
Charges for services	204,997	204,997	267,889	62,892
Investment earnings	105,000	105,000	(61,159)	(166,159)
Miscellaneous	108,950	108,950	85,647	(23,303)
Total Revenues	\$ 3,450,363	\$ 3,450,363	\$ 3,355,793	\$ (94,570)
Expenditures				
Current				
General government				
Commissioners	\$ 154,869	\$ 154,869	\$ 151,008	\$ 3,861
District court	12,500	12,500	14,828	(2,328)
Law library	1,060	1,060	483	577
County auditor	196,527	196,527	157,166	39,361
License bureau	10,522	10,522	709	9,813
County treasurer	119,189	119,189	126,558	(7,369)
County assessor	124,759	124,759	154,074	(29,315)
Elections	64,000	64,000	46,868	17,132
Data processing	49,000	49,000	60,431	(11,431)
Personnel	80,655	80,655	79,963	692
Attorney	189,468	189,468	187,722	1,746
Recorder	122,428	122,428	93,080	29,348
Buildings and plant	97,602	97,602	92,264	5,338
Veterans service officer	22,332	22,332	24,241	(1,909)
Insurance	15,200	15,200	13,294	1,906
Other general government	71,183	71,183	39,115	32,068
Total general government	\$ 1,331,294	\$ 1,331,294	\$ 1,241,804	\$ 89,490
Expenditures				
Public safety				
Sheriff	\$ 1,042,460	\$ 1,042,460	\$ 1,057,240	\$ (14,780)
Community corrections	195,878	195,878	195,878	-
Coroner	11,450	11,450	10,915	535
Crime victim assistance	51,689	51,689	50,651	1,038
Enhanced 911	73,587	73,587	66,680	6,907
Emergency services	28,000	28,000	30,227	(2,227)
Total public safety	\$ 1,403,064	\$ 1,403,064	\$ 1,411,591	\$ (8,527)

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

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	\$ 10,350	\$ 10,350	\$ 11,175	\$ (825)
Recycling	79,820	79,820	89,396	(9,576)
Individual Septic Treatment System	47,531	47,531	45,013	2,518
Total sanitation	\$ 137,701	\$ 137,701	\$ 145,584	\$ (7,883)
Human services				
Committee on aging	\$ 8,435	\$ 8,435	\$ 8,435	\$ -
Buildings and grounds	14,000	14,000	16,317	(2,317)
Total human services	\$ 22,435	\$ 22,435	\$ 24,752	\$ (2,317)
Health				
Nursing service	\$ 21,388	\$ 21,388	\$ 21,388	\$ -
Ambulance	40,500	40,500	40,500	-
Total health	\$ 61,888	\$ 61,888	\$ 61,888	\$ -
Culture and recreation				
Parks	\$ 7,000	\$ 7,000	\$ 3,759	\$ 3,241
Regional library	33,567	33,567	33,567	-
Snowmobile and ski trails	50,000	50,000	67,346	(17,346)
Celebrations	255	255	255	-
Total culture and recreation	\$ 90,822	\$ 90,822	\$ 104,927	\$ (14,105)
Conservation of natural resources				
Agricultural society	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Cooperative extension	95,238	95,238	92,272	2,966
Environmental services	227,023	227,023	190,033	36,990
Red River Basin	107	107	107	-
Soil and water conservation	102,647	102,647	71,069	31,578
Total conservation of natural resources	\$ 435,515	\$ 435,515	\$ 364,281	\$ 71,234

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

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (Continued)				
Capital outlay				
General government	\$ 42,096	\$ 42,096	\$ 26,810	\$ 15,286
Public safety	-	-	34,289	(34,289)
Sanitation	-	-	5,982	(5,982)
Total capital outlay	\$ 42,096	\$ 42,096	\$ 67,081	\$ (24,985)
Total Expenditures	\$ 3,524,815	\$ 3,524,815	\$ 3,421,908	\$ 102,907
Excess of Revenues Over (Under) Expenditures	\$ (74,452)	\$ (74,452)	\$ (66,115)	\$ 8,337
Other Financing Sources (Uses)				
Transfers in	68,740	68,740	66,489	(2,251)
Net Change in Fund Balance	\$ (5,712)	\$ (5,712)	\$ 374	\$ 6,086
Fund Balance - January 1	1,998,029	1,998,029	1,998,029	-
Fund Balance - December 31	\$ 1,992,317	\$ 1,992,317	\$ 1,998,403	\$ 6,086

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

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 364,370	\$ 364,370	\$ 505,438	\$ 141,068
Intergovernmental	1,407,038	1,407,038	2,497,914	1,090,876
Charges for services	186,032	186,032	162,733	(23,299)
Investment earnings	7,883	7,883	13,302	5,419
Miscellaneous	21,128	21,128	13,267	(7,861)
Total Revenues	\$ 1,986,451	\$ 1,986,451	\$ 3,192,654	\$ 1,206,203
Expenditures				
Current				
Highways and streets				
Administration	\$ 341,574	\$ 341,574	\$ 358,888	\$ (17,314)
Maintenance	777,153	777,153	999,246	(222,093)
Construction	242,386	242,386	1,259,548	(1,017,162)
Equipment maintenance and shop	445,154	445,154	440,931	4,223
Town roads	155,631	155,631	181,959	(26,328)
Other highways and streets	53,789	53,789	46,623	7,166
Total highways and streets	\$ 2,015,687	\$ 2,015,687	\$ 3,287,195	\$ (1,271,508)
Capital outlay				
Highways and streets	65,900	65,900	201,496	(135,596)
Total Expenditures	\$ 2,081,587	\$ 2,081,587	\$ 3,488,691	\$ (1,407,104)
Excess of Revenues Over (Under) Expenditures	\$ (95,136)	\$ (95,136)	\$ (296,037)	\$ (200,901)
Fund Balance - January 1	991,321	991,321	991,321	-
Increase (decrease) in inventories	-	-	125,722	125,722
Fund Balance - December 31	\$ 896,185	\$ 896,185	\$ 821,006	\$ (75,179)

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

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 412,030	\$ 412,030	\$ 342,519	\$ (69,511)
Intergovernmental	876,619	876,619	972,470	95,851
Charges for services	95,000	95,000	139,660	44,660
Miscellaneous	187,150	187,150	291,364	104,214
Total Revenues	\$ 1,570,799	\$ 1,570,799	\$ 1,746,013	\$ 175,214
Expenditures				
Current				
Human services				
Income maintenance	\$ 896,933	\$ 896,933	\$ 759,474	\$ 137,459
Social services	673,866	673,866	701,381	(27,515)
Capital outlay				
Human services	-	-	7,409	(7,409)
Total Expenditures	\$ 1,570,799	\$ 1,570,799	\$ 1,468,264	\$ 102,535
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 277,749	\$ 277,749
Other Financing Sources (Uses)				
Transfers out	-	-	(66,489)	(66,489)
Net Change in Fund Balance	\$ -	\$ -	\$ 211,260	\$ 211,260
Fund Balance - January 1	1,439,540	1,439,540	1,439,540	-
Fund Balance - December 31	\$ 1,439,540	\$ 1,439,540	\$ 1,650,800	\$ 211,260

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

Schedule 4

**SCHEDULE OF CHANGES IN TOTAL LIABILITY AND RELATED RATIOS
OTHER POST-EMPLOYMENT BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	2018
Total OPEB Liability	
Service cost	\$ 14,752
Interest cost	6,759
Differences between expected and actual experience	-
Changes of assumption or other inputs	(143,052)
Plan changes	-
Benefit payments	(21,727)
Net change in total OPEB liability	\$ (143,268)
Total OPEB Liability - Beginning	343,887
Total OPEB Liability - Ending	\$ 200,619
Covered-employee payroll	\$ 2,008,342
Total OPEB liability (asset) as a percentage of covered-employee payroll	9.99%

This schedule is intended to present 10 years and will be updated as information becomes available.

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

Schedule 5

GOVERNMENTAL ACTIVITIES

**SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA
FOR THE YEAR ENDED DECEMBER 31, 2018**

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	\$ -	\$ 2,066,864	7.5%
December 31, 2016	\$ 160,293	\$ 160,293	\$ -	\$ 2,137,234	7.5%
December 31, 2017	\$ 168,019	\$ 168,019	\$ -	\$ 2,240,239	7.5%
December 31, 2018	\$ 169,203	\$ 169,203	\$ -	\$ 2,256,034	7.5%

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%
December 31, 2016	\$ 78,448	\$ 78,448	\$ -	\$ 484,248	16.2%
December 31, 2017	\$ 84,017	\$ 84,017	\$ -	\$ 518,623	16.2%
December 31, 2018	\$ 87,696	\$ 87,696	\$ -	\$ 541,334	16.2%

Note: This schedule is intended to present 10 years and will be updated as information becomes available.

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

Schedule 6

GOVERNMENTAL ACTIVITIES

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
FOR THE YEAR ENDED DECEMBER 31, 2018**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

<u>Fiscal Year Ending</u>	<u>Employer's Proportion of the Net Pension Liability</u>	<u>Employer's Proportionate Share of the Net Pension Liability</u>	<u>Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability</u>	<u>Employer's Proportionate Share of the Net Pension Liability and the Employer's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability</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	\$ -	\$ 1,725,779	\$ 1,992,123	86.63%	78.20%
June 30, 2016	0.0340%	\$ 2,760,631	\$ 36,009	\$ 2,796,640	\$ 2,137,234	129.17%	68.90%
June 30, 2017	0.0342%	\$ 2,183,305	\$ 27,456	\$ 2,210,761	\$ 2,193,283	99.55%	75.90%
June 30, 2018	0.0335%	\$ 1,858,443	\$ 60,962	\$ 1,919,405	\$ 2,252,414	82.51%	79.53%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

<u>Fiscal Year Ending</u>	<u>Employer's Proportion of the Net Pension Liability</u>	<u>Employer's Proportionate Share of the Net Pension Liability</u>	<u>Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability</u>	<u>Employer's Proportionate Share of the Net Pension Liability and the Employer's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability</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	\$ -	\$ 522,668	\$ 417,734	125.12%	86.60%
June 30, 2016	0.0460%	\$ 1,846,060	\$ -	\$ 1,846,060	\$ 484,248	381.22%	63.90%
June 30, 2017	0.0342%	\$ 661,558	\$ -	\$ 661,558	\$ 504,788	131.06%	85.40%
June 30, 2018	0.0510%	\$ 540,410	\$ -	\$ 540,410	\$ 534,044	101.19%	88.84%

Note: This schedule is intended to present 10 years and will be updated as information becomes available.

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

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, 2018:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
District court	\$ 14,828	\$ 12,500	\$ (2,328)
County treasurer	126,558	119,189	(7,369)
County assessor	154,074	124,759	(29,315)
Data processing	60,431	49,000	(11,431)
Veterans service officer	24,241	22,332	(1,909)
Public safety			
Sheriff	1,057,240	1,042,460	(14,780)
Emergency services	30,227	28,000	(2,227)
Sanitation			
Solid waste	11,175	10,350	(825)
Recycling	89,396	79,820	(9,576)
Human services			
Buildings and grounds	16,317	14,000	(2,317)
Culture and recreation			
Snowmobile and ski trails	67,346	50,000	(17,346)
Capital outlay			
Public safety	34,289	-	(34,289)
Sanitation	5,982	-	(5,982)
Road and Bridge Special Revenue Fund			
Highways and streets			
Administration	358,888	341,574	(17,314)
Maintenance	999,246	777,153	(222,093)
Construction	1,259,548	242,386	(1,017,162)
Town roads	181,959	155,631	(26,328)
Capital outlay			
Highways and streets	201,496	65,900	(135,596)
Social Services Special Revenue Fund			
Human services			
Social services	701,381	673,866	(27,515)
Capital outlay			
Human services	7,409	-	(7,409)

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

II. Other Post-Employment Benefits (OPEB)

Assets have not been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75 to pay related benefits. For more information, refer to Schedule 5 of this section and the Notes to the Financial Statements Section IV., Other Post-Employment Benefits.

2018 Changes
Plan Changes

- Highway union employees are now covered under the Local 49 Health and Welfare Fund, not the County sponsored health insurance.

Changes in Actuarial Assumptions

The most recent actuarial valuation date is January 1, 2017. Since the last actuarial valuation as of January 1, 2014, the following actuarial assumptions have been changed:

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality tables were updated from the RP-2014 mortality tables (blue collar for Public Safety, white collar for others) with MP-2014 Generational Improvement Scale to the RP-2014 Mortality Tables (blue collar for Public Safety, white collar for others) with MP-2017 Generational Improvement Scale.
- The withdrawal and retirement tables for all employees were updated.
- The discount rate was changed from 4.00% to 3.30%.

Method Changes

Since the last actuarial valuation as of January 1, 2014, the following plan provisions have changed:

- The actuarial cost method was changed from projected unit credit to entry age as prescribed by GASB 75.

II. Public Employees Retirement Association (PERA)

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 Board.

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

III. Public Employees Retirement Association (PERA)

Net Pension Liability (Continued)

A. General Employees Fund

1. 2018 Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit rate increase was changed from 1.00 percent per year through 2044, and 2.50 percent per year thereafter to 1.25 percent per year.

2. 2017 Changes

a. Changes in Plan Provisions

- The State's special funding contribution increased from \$6 million to \$16 million.

b. Changes in Actuarial Assumptions

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

3. 2016 Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

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

IV. Public Employees Retirement Association (PERA)

Net Pension Liability

A. General Employees Fund (Continued)

4. 2015 Changes

a. Changes in Plan Provisions:

- On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

b. Changes in Plan Provisions:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

B. Police and Fire Fund

1. 2018 Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2016 to MP-2017.

2. 2017 Changes in Actuarial Assumptions

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.

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

III. Public Employees Retirement Association (PERA)

Net Pension Liability

B. Police and Fire Fund

2. 2017 Changes in Actuarial Assumptions (Continued)

- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.
- The Single Discount Rate was changed from 5.60 percent per annum to 7.50 percent per annum.

3. 2016 Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2037 and 2.5 percent per year thereafter to 1.0 percent per year for all future years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 5.6 percent.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

4. 2015 Changes

a. Changes in Plan Provisions:

- The post-retirement benefit increase to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.50 percent, to a fixed rate of 2.50 percent.

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

III. Public Employees Retirement Association (PERA)

Net Pension Liability

B. Police and Fire Fund

4. 2015 Changes (Continued)

b. Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2037 and 2.50 percent per year thereafter.

C. Correctional Fund

1. 2018 Changes in Actuarial Assumptions:

- The Single Discount Rate was changed from 5.96 percent per annum to 7.50 percent per annum.
- The morality projection scale was changed from MP-2016 to MP-2017.
- The assumed post-retirement benefit increase was changed from 2.50 percent to 2.00 percent per year.

2. 2017 Changes in Actuarial Assumptions:

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disable members. The base mortality table for disable annuitants was changed from the RP-2000 disable mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to MP-2016).
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1 percent for non-vested members.
- The Single Discount Rate was changed from 5.31 percent per annum to 5.96 percent per annum.

3. 2016 Changes in Actuarial Assumptions:

- The assumed investment return was changed from 7.90 percent to 7.50 percent. The Single Discount Rate changed from 7.90 percent to 5.31 percent.

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

III. Public Employees Retirement Association (PERA)

Net Pension Liability

C. Correctional Fund

3. 2016 Changes in Actuarial Assumptions (Continued)

- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

SUPPLEMENTARY INFORMATION

**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 Forfeited Tax Agency 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.

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 1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CHILDREN'S INITIATIVE/FAMILY SERVICE COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 24,202	\$ 27,863	\$ 25,918	\$ 26,147
<u>Liabilities</u>				
Due to other governments	\$ 24,202	\$ 27,863	\$ 25,918	\$ 26,147
<u>FLEXIBLE SPENDING</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 3,377	\$ 2,460	\$ 5,937	\$ (100)
Accounts receivable	-	100	-	100
Total Assets	\$ 3,377	\$ 2,560	\$ 5,937	\$ -
<u>Liabilities</u>				
Accounts payable	\$ 3,377	\$ 2,560	\$ 5,937	\$ -
<u>FORFEITED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 11,840	\$ 2,567	\$ 339	\$ 14,068
<u>Liabilities</u>				
Accounts payable	\$ 11,840	\$ 2,567	\$ 339	\$ 14,068
<u>INSURANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ (14,635)	\$ 649,338	\$ 677,159	\$ (42,456)
Accounts receivable	-	42,456	-	42,456
Total Assets	\$ (14,635)	\$ 691,794	\$ 677,159	\$ -

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

***Statement 1
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Balance January 1	Additions	Deductions	Balance December 31
<u>Liabilities</u>				
Accounts payable	\$ (14,635)	\$ 691,794	\$ 677,159	\$ -

**NORTHWEST MINNESOTA MULTI-COUNTY
HOUSING AND REDEVELOPMENT**

<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 31,408	\$ 31,433	\$ (25)
Due from other governments	-	25	-	25
Total Assets	\$ -	\$ 31,433	\$ 31,433	\$ -

<u>Liabilities</u>				
Accounts payable	\$ -	\$ 31,433	\$ 31,433	\$ -

**NORTHWEST REGIONAL
DEVELOPMENT COMMISSION**

<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 14,193	\$ 14,204	\$ (11)
Due from other governments	-	11	-	11
Total Assets	\$ -	\$ 14,204	\$ 14,204	\$ -

<u>Liabilities</u>				
Due to other governments	\$ -	\$ 14,204	\$ 14,204	\$ -

PREPAID TAXES

<u>Assets</u>				
Cash and pooled investments	\$ 16,802	\$ 21,084	\$ 161	\$ 37,725

<u>Liabilities</u>				
Due to other governments	\$ 16,802	\$ 21,084	\$ 161	\$ 37,725

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

***Statement 1
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Balance January 1	Additions	Deductions	Balance December 31
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,790,960	\$ 1,791,639	\$ (679)
Due from other governments	-	679	-	679
Total Assets	\$ -	\$ 1,791,639	\$ 1,791,639	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,791,639	\$ 1,791,639	\$ -
<u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 11,164	\$ 1,417,237	\$ 1,418,410	\$ 9,991
<u>Liabilities</u>				
Due to other governments	\$ 11,164	\$ 1,417,237	\$ 1,418,410	\$ 9,991
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 105,998	\$ 7,896,304	\$ 7,954,546	\$ 47,756
<u>Liabilities</u>				
Due to other governments	\$ 105,998	\$ 7,896,304	\$ 7,954,546	\$ 47,756
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,747,547	\$ 1,776,513	\$ (28,966)
Due from other governments	-	28,966	-	28,966
Total Assets	\$ -	\$ 1,776,513	\$ 1,776,513	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,776,513	\$ 1,776,513	\$ -

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

***Statement 1
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>WATERSHED</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 366,257	\$ 366,542	\$ (285)
Due from other governments	-	285	-	285
Total Assets	\$ -	\$ 366,542	\$ 366,542	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 366,542	\$ 366,542	\$ -
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 158,748	\$ 13,967,218	\$ 14,062,801	\$ 63,165
Accounts receivable	-	42,556	-	42,556
Due from other governments	-	29,966	-	29,966
Total Assets	\$ 158,748	\$ 14,039,740	\$ 14,062,801	\$ 135,687
<u>Liabilities</u>				
Accounts payable	\$ 582	\$ 728,354	\$ 714,868	\$ 14,068
Due to other governments	158,166	13,311,386	13,347,933	121,619
Total Liabilities	\$ 158,748	\$ 14,039,740	\$ 14,062,801	\$ 135,687

OTHER SCHEDULES

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

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2018**

	Assets			
	Cash	Special Assessments Receivable Prior	Due from Other Governments	Total Assets
County Ditches				
2	\$ 29,251	\$ 1	\$ -	\$ 29,252
3	34,595	-	-	34,595
4	36,264	202	-	36,466
9	31,105	6	-	31,111
12	23,434	-	-	23,434
17	30,349	-	-	30,349
18-65	25,544	373	-	25,917
22	7,303	137	-	7,440
23	7,134	-	-	7,134
24	31,445	-	-	31,445
28	4,760	3	-	4,763
57	28,700	670	-	29,370
58	37,027	8	-	37,035
60	22,941	-	-	22,941
61	26,965	422	-	27,387
62	47,919	-	-	47,919
64	12,313	37	-	12,350
67	28,985	-	-	28,985
69	10,304	-	-	10,304
70	5,039	-	-	5,039
Joint Ditches				
1	53,255	28	3,236	56,519
3	40,266	42	-	40,308
11	15,630	-	232	15,862
13	17,617	-	132	17,749
15	28,205	4	102	28,311
31	9,837	-	604	10,441
60	34,937	-	582	35,519
64	32,111	-	-	32,111
66	13,654	3	-	13,657
71	17,618	-	-	17,618
Watershed Ditches				
1	-	-	-	-
3	-	-	-	-
7	-	-	-	-
Clearwater River Project	-	-	-	-
Lost River Improv Project	-	-	-	-
10	23,874	4	-	23,878
Total	\$ 768,381	\$ 1,940	\$ 4,888	\$ 775,209

Schedule 7

Liabilities			Deferred Inflows of Resources	Fund Balances Restricted	Total Liabilities, Deferred Inflows of Resources, and Fund Balances
Due to Other Funds	Due to Other Governments	Total Liabilities			
\$ -	\$ -	\$ -	\$ 1	\$ 29,251	\$ 29,252
-	-	-	-	34,595	34,595
-	-	-	202	36,264	36,466
-	-	-	6	31,105	31,111
-	-	-	-	23,434	23,434
-	-	-	-	30,349	30,349
-	-	-	373	25,544	25,917
-	-	-	137	7,303	7,440
-	-	-	-	7,134	7,134
-	-	-	-	31,445	31,445
-	-	-	3	4,760	4,763
-	-	-	670	28,700	29,370
-	-	-	8	37,027	37,035
-	-	-	-	22,941	22,941
-	-	-	422	26,965	27,387
-	-	-	-	47,919	47,919
-	-	-	37	12,313	12,350
-	-	-	-	28,985	28,985
-	-	-	-	10,304	10,304
-	-	-	-	5,039	5,039
-	-	-	28	56,491	56,519
-	-	-	42	40,266	40,308
-	490	490	-	15,372	15,862
-	-	-	-	17,749	17,749
-	-	-	4	28,307	28,311
-	888	888	-	9,553	10,441
-	-	-	-	35,519	35,519
-	-	-	-	32,111	32,111
-	-	-	3	13,654	13,657
-	-	-	-	17,618	17,618
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
22,127	-	22,127	4	1,747	23,878
\$ 22,127	\$ 1,378	\$ 23,505	\$ 1,940	\$ 749,764	\$ 775,209

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

Schedule 8

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2018**

Shared Revenue

State

County program aid	\$ 418,247
County Aquatic Invasive Species Prevention Aid	6,804
Disparity reduction aid	30,810
Enhanced 911	73,587
Highway users tax	2,382,207
Market value credit	104,722
PERA rate reimbursement	8,965
Police state aid	69,601
Riparian Protection Aid	93,819
	93,819

Total Shared Revenue **\$ 3,188,762**

Reimbursement for Services

State

Minnesota Department of Human Services	\$ 227,102
	227,102

Payments

Payments in lieu of taxes	\$ 13,257
	13,257

Grants

State

Minnesota Department/Board of

Human Services	\$ 225,720
Natural Resources	73,707
Peace Officer Standards and Training	8,613
Pollution Control Agency	75,716
Public Safety	33,019
Secretary of State	33,500
Trial Courts	8,963
Veterans Affairs	7,500
Water and Soil Resources	83,061
	83,061

Total State **\$ 549,799**

Federal

Department of

Agriculture	\$ 55,992
Justice	38,852
Health and Human Services	463,072
Homeland Security	14,024
	14,024

Total Federal **\$ 571,940**

Total Grants **\$ 1,121,739**

Total Intergovernmental Revenue **\$ 4,550,860**

MANAGEMENT AND COMPLIANCE SECTION

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



Hoffman, Philipp, & Knutson, PLLC

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

Independent Auditor's Report

Board of County Commissioners
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, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated February 1, 2021.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 2018-001, 2018-002, 2018-003, 2018-004, 2018-005, 2018-006, and 2018-007 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 Counties*, 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 Counties*, except the deficiencies noted as items 2018-008, 2018-009, and 2018-010. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

Included in the Schedule of Findings and Responses is management practices comment item 2018-011. We believe this recommendation and information to be of benefit to the County, and it is reported for that purpose.

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 Counties* 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 over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.



Hoffman, Philipp, & Knutson, PLLC
February 1, 2021

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

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2018

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number: 2018-001

Prior Year Audit Finding Number: 1996-004

Finding Title: Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect County assets, proper segregation of the record-keeping, custody, and authorization functions should be in place; and, where management decides segregation of duties may not be cost effective, compensating controls should be in place.

Condition: The limited number of personnel within several Red Lake County offices results in a lack of segregation of accounting duties necessary to ensure adequate internal accounting control. The smaller offices that collect fees generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts, as well as reconciling bank accounts.

Context: This is not unusual in operations the size of Red Lake County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in a timely period by employees in the normal course of performing their assigned functions.

Cause: Due to limited economic resources, the County informed us that it is impractical to hire enough staff to achieve a desirable level of segregation of duties in every department.

Recommendation: We recommend Red Lake County's elected officials and management be mindful that limited staffing increases the risks in safeguarding the County's assets and the proper recording of its financial activity and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

County's Response: *Management is fully aware that segregation of duties is not adequate. The County Board continues to implement oversight procedures and monitor those procedures to determine if they are still effective.*

Finding Number: 2018-002

Prior Year Audit Finding Number: 2007-001

Finding Title: Documenting and Monitoring Internal Controls

Criteria: County management is responsible for developing and monitoring its internal controls. An essential element of monitoring controls includes documenting the County's accounting policies and procedures and performing a risk assessment of existing controls over significant functions of the accounting system used to produce financial information for members of the County Board, management, and for external financial reporting. Written policies and procedures should exist to ensure the County's practices are followed as intended by management. The risk assessment is intended to determine if the internal controls established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided. Significant functions to be addressed would include areas such as cash and investment activities; major funding sources, including taxes, intergovernmental revenues, and charges for services; expenditure processing, including new vendor set-up; payroll; capital assets; and information technology.

Condition: The County has documented policies relating to fund balance and personnel, including meal and mileage reimbursement. The County also has an investment policy that requires investments be kept in safekeeping. However, to manage custodial credit risk, the County instead uses Securities Investment Protection Corporation (SIPC) and excess SIPC. The County lacks written policies and procedures over other significant functions. In addition, there are no formal risk assessment and monitoring procedures in place to determine if the internal controls established by County management are still effective or if changes are needed to maintain a sound internal control structure.

Context: While internal controls may be established, it is not uncommon in operations the size of Red Lake County to fail to periodically review those controls. Monitoring of internal controls is necessary to ensure they are in place, appropriate, and operating effectively.

Effect: Without comprehensive accounting policies and procedures over all significant functions, and no formal risk assessment and monitoring procedures, there is an increased risk that the County's practices may not be followed as intended by management, employees may not understand the purpose of internal controls, and errors or irregularities may not be prevented or detected timely.

Cause: The County has some formal policies and procedures; however, due to limited time and resources, the County has been unable to complete the process of documenting all significant policies and procedures and formalizing its risk assessment and monitoring process.

Recommendation: We recommend County management continue its efforts to document key internal controls in its significant accounting functions. The County should update its investment policy to include the use of SIPC and excess SIPC to manage custodial credit risk, or otherwise comply with its policy. We further recommend that a formal plan be developed to assess and monitor the significant internal controls on a regular basis, no less than annually. The monitoring should be documented to show the results of the review, changes required, and who performed the work.

County's Response: *The County has begun to formalize written documentation of their internal controls and the monitoring process to ensure the reliability of financial reporting and the effectiveness and efficiency of operations.*

Finding Number: 2018-003
Prior Year Audit Finding Number: 2015-001
Finding Title: Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: Material audit adjustments were identified that resulted in significant changes to the County's financial statements.

Context: The inability to make all necessary accrual adjustments or to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. These adjustments were found in the audit; however, independent external auditors cannot be considered part of the County's internal control.

Effect: Audit adjustments were reviewed and approved by management and are reflected in the financial statements.

Cause: Procedures were not in place to consider the full extent of all entries needed for financial reporting.

Recommendation: We recommend County staff improve their financial statement closing procedures to include review of balances, disclosures, and supporting documentation by a qualified individual to ensure that all significant adjustments have been made and they have accurate and complete information necessary to fairly present the County's financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

County's Response: *Audit adjustments are reviewed and approved by the County Auditor and when necessary authorized by the County Board of Commissioners. All departments are being informed to document year-end accounts receivable and payable transactions and notify accounting staff so these transactions can be coded as such in IFS.*

Finding Number: 2018-004
Prior Year Audit Finding Number: 2015-003
Finding Title: Management and Audit Responsibilities

Criteria: The County is required by both state statutes and federal regulations to have an annual audit of its financial statements. For an audit, management is responsible for the preparation and fair presentation of the financial statements and all accompanying information, as well as all representations contained therein. Management is also responsible for the preparation and maintenance of complete and accurate records and for establishing and maintaining effective internal controls to ensure financial information is reliable and properly reported.

Auditors, in their role as external objective attestors, are responsible for performing procedures to obtain reasonable assurance that the financial statements are free from material misstatement and to express an opinion on the financial statements. External auditors cannot be considered part of the County's internal control. Auditors also cannot make management decisions for the County or perform activities that are considered management responsibilities without creating threats to their independence in relation to the audit.

Condition: The County relied on its prior external auditors to assist with cash to accrual journal entries and preparation of the financial statements and the notes to the financial statements relevant to capital assets, contracts payable, salaries payable, compensated absences, and net other postemployment benefits.

Context: Although the external auditor's assisted with non-attest services, there were adequate safeguards in place to reduce threats to the auditor's independence to an acceptable level.

Effect: County management is aware they are responsible for the preparation and maintenance of complete and accurate records and for establishing and maintaining effective internal controls to ensure financial information is reliable and properly reported.

Cause: County management determined it was more cost effective to have its external auditors assist with preparation of its basic financial statements, including supporting calculations and documentation, rather than to incur the time and expense of preparing the information internally.

Recommendation: We recommend County staff make determinations and calculations, along with maintaining the records, needed for financial reporting.

County's Response: *County staff are providing the needed documentation and are aware of the issue and will work towards completing the spreadsheets and reports as much as possible to meet requirements. The county has hired an actuarial firm to complete the necessary Post Employment Benefit Reports for 2017 and 2018 to meet the GASB 16, GASB 45 and GASB 75 reporting requirements and will continue to utilize this firm for future reports.*

Finding Number: 2018-005

Prior Year Audit Finding Number: 2015-005

Finding Title: Capital Assets

Criteria: The County is required by GAAP to account for and depreciate its capital assets over their estimated useful lives. Specifically, Governmental Accounting Standards Board Statement 34 (GASB 34) requires governments to include capital assets on the statement of net position and to report depreciation expense for those assets on the statement of activities. A capital asset policy should be adopted which defines the County's accounting policies over capital assets, such as capitalization thresholds, useful lives, and depreciation methods. A physical inventory of capital assets should be taken at least every five years.

Condition: The County Board has not adopted formal capital asset policies or procedures. The following deficiencies related to capital assets were noted:

- No supporting documentation is required for disposal of assets. At the end of the year, department heads review a listing of assets and cross off assets no longer in use.
- Additions to capital assets are listed on the County's Property and Equipment Record form, but additional documentation supporting those additions, such as when the asset was acquired or the cost of the asset, is not required and, therefore, not used to verify asset additions.
- Department head review of asset listings and annual physical inventories of assets are not documented.
- The County had adopted the OSA recommended Capital Asset Policy which includes recommended capitalization thresholds and useful lives of capital assets used for financial reporting purposes.

Context: To comply with GASB 34, the County must establish accounting policies for capital assets, including more specific capitalization thresholds, useful lives, and the designation of specific general ledger accounting codes to record the purchases and construction costs of capital assets. The County must improve their capital asset accounting system capable of providing the information needed to comply with the reporting requirements of GASB 34.

Effect: There is increased risk of theft and misappropriation of the County's assets due to the lack of controls and increased risk of material misstatement in the County's financial statements due to error or lack of oversight.

Cause: The County believed the OSA recommended Capital Asset Policy provided sufficient guidance for accounting policies for capital assets. The County had also relied on its external auditor to assist with preparation of capital asset records.

Recommendation: We recommend the County Board establish a more specific capital asset policy to define the County's accounting policies and procedures over capital assets to ensure capital asset records are accurately tracked by County staff. The policy should address procedures for County staff to identify capital asset additions and deletions. Also, we recommend a physical inventory of capital assets be performed at least once every five years. This physical inventory can be rotated so that a portion of the capital assets is inventoried each year.

County's Response: *The county does complete a physical inventory of capital assets on an annual basis. The Auditor's office has already implemented an improved capital asset record system for recording additions and deletions, and in addition requires the supporting documentation from each department. The Auditor's Office has the supporting department asset sheets on file as supporting documentation. Department Heads are required to approve their departmental asset records.*

Finding Number: 2018-006

Prior Year Audit Finding Number: 2015-006

Finding Title: Inventory Records

Criteria: Recorded inventory amounts should reflect the actual amount of inventory on hand. Inventory records should be reconciled to an annual physical count to ensure accuracy for financial statement presentation. During the fiscal period, the inventory records should be regularly updated for additions and withdrawals to maintain accuracy. Additionally, controls should be in place to ensure that information provided by the inventory system is accurate and that County assets are adequately safeguarded.

Condition: The inventory listed in the highway cost accounting system was not accurate.

Context: The Highway Department uses its costing system to manage and track inventory. Typically, additions to the system are posted based on vendor invoices, and withdrawals are based on inventory usage reports provided by staff.

Effect: Without adequate controls over inventory, County assets are exposed to potential misuse and theft. Also, there is an increased risk of material misstatement in the County's financial statements.

Cause: Procedures for the additions and withdrawals of items from inventory, pricing and tracking of inventory, as well as the frequency of inventory counts and reconciliation to the inventory system, have not been formally documented in a policy.

Recommendation: The County should develop procedures related to inventory that include physical

inventory counts. The physical inventory counts should be performed annually, by at least two individuals, and all support for year-end balances should be approved and maintained.

County's Response: *The Highway Department has begun completing a physical inventory by surveying aggregate stockpiles at years end. Highway Department staff have been informed to keep inventory records up to date so their cost accounting system reflects the actual inventory amounts.*

Finding Number: 2018-007

Prior Year Audit Finding Number: 2015-010

Finding Title: Budgeting Procedures

Criteria: GAAP and the County Financial Accounting and Reporting Standards (COFARS) recommend that expenditure estimates and the annual budget be appropriated to the various operational entities within the County and that line-item budget detail by fund be available. Good budget accounting requires: (1) an annual budget adopted by every governmental unit; (2) an accounting system that provides the basis for appropriate budgetary control; and (3) a common technology and classification used consistently throughout the budgets, accounts, and financial reports of each fund. The County Board should adopt an accurate budget, and it should be followed by the County. The adopted budget should be designed so that comparisons can be made between actual amounts and budget amounts. Any amendments to the budget should be approved and documented in the official minutes.

Condition: Differences were noted between the Board-approved budget and the budget entered into the County's financial system (IFS) for the General Fund. The Road and Bridge Special Revenue Fund budget was not entered into the IFS. Additionally, the Social Services Special Revenue Fund budget was entered into the IFS, but was not set as "Original Budget" and, therefore, does not appear in general ledger downloads or financial statements generated from the system.

Context: The appropriations constitute maximum expenditure authorizations during the fiscal year and cannot legally be exceeded unless subsequently amended by the County Board.

Effect: General Fund budgeted expenditures were \$48,202 more in the financial system than the Board-approved budget. The Road and Bridge and the Social Services Special Revenue Funds' budgets were not readily available within the general ledger for comparison or other monitoring activities that are expected to be performed by management and the Board of County Commissioners.

Cause: Errors were made while posting the original Board-approved budget to the General Fund in the financial system, and the original budget was not reviewed for accuracy after it was entered. Additionally, the County does not have a formal process to ensure all funds have an original budget entered properly in the IFS.

Recommendation: We recommend the County implement procedures to improve budgetary accounting, which should include reviewing the original budgets entered in the IFS and comparing them to the Board-approved budget for accuracy.

County's Response: *The Revenue Fund and Social Service Fund budgets amounts have been entered into IFS in the past and will continue to do so. The County Auditor enters the Revenue Fund departmental budget amounts into IFS and will include the annual levy amount in the future. Social Services enters their specific budget amounts into IFS. However, the Highway Department is responsible for entering their respective budget amounts into IFS on annual basis.*

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number: 2018-008

Prior Year Audit Finding Number: 2015-015

Finding Title: Publishing Requirements

Criteria: Minnesota statutes contain requirements for publishing County Board minutes and budgets.

Condition: The County was not in compliance with the following State of Minnesota legal requirements:

- Pursuant to Minn. Stat. § 375.12, within 30 days of each meeting, the County Board must have the official proceedings of its sessions or a summary published in a qualified newspaper of general circulation in the County. The affidavits of publication related to the publishing of a summary of the County Board minutes for 2017 were reviewed. The summaries were not published in the County's official newspaper within the 30-day requirement.
- Pursuant to Minn. Stat. § 375.169, annually, upon adoption of the County budget, the County must publish a summary budget statement in a form prescribed by the State Auditor in the County's official newspaper. The County did not publish the 2017 budget.

Context: Published summaries of the official proceedings of the County Board were reviewed; none were published within the 30-day requirement.

Effect: Noncompliance with Minn. Stat. §§ 375.12 and 375.169.

Cause: County staff stated this was an oversight.

Recommendation: We recommend the County publish summaries of the County Board minutes in compliance with Minn. Stat. § 375.12 and publish the summary budget statement in compliance with Minn. Stat. § 375.169.

County's Response: *The County is aware of the issue and is now meeting the requirement.*

Finding Number: 2018-009

Prior Year Audit Finding Number: 2015-018

Finding Title: Credit Card Use

Criteria: The County Credit Card Policy states, "No county departmental authority or employee may enter into a credit card agreement without prior approval of the County Board of Commissioners in accordance with Minn. Stat. § 471.382 and its statutory restrictions as a minimum."

While Minn. Stat. § 471.382 applies to cities and towns, Minn. Stat. § 375.171 includes the same language as applied to counties. Minn. Stat § 375.171 states, "A county board may authorize the use of a credit card by any county officer or employee otherwise authorized to make a purchase on behalf of the county. If a county officer or employee makes a purchase by credit card that is not approved by the county board, the officer or employee is personally liable for the amount of the purchase. A purchase by credit card must otherwise comply with all statutes, rules, or county policy applicable to county purchases."

Condition: The Sheriff and eight deputies have County credit cards. No record was provided of Board authorization for the use of the credit cards.

Context: Employees of the Sheriff's Office have been following an internal departmental policy regarding credit cards.

Effect: Without Board authorization for the use of a credit card, users are not in compliance with statutes and the County's credit card policy. Unauthorized users could be personally liable for credit card purchases.

Cause: The Sheriff was not aware Board authorization is required for users of a County credit card.

Recommendation: We recommend the County Board review all existing credit card users and authorize use as appropriate. In the future, all new credit card users should be Board-approved prior to card issuance. Additionally, we recommend the County retain documentation of Board-approved credit card users.

County's Response: *The County Board recently adopted a Credit Card Policy on November 12, 2019 to meet the MN Statutes requirement. The credit cards are used for Sheriff Office needs only.*

Finding Number: 2018-010

Prior Year Audit Finding Number: 2015-019

Finding Title: Electronic Funds Transfer (EFT) Policies and Procedures

Criteria: The County Board is required by Minn. Stat. §§ 471.381, subd. 3, and 385.071 to establish policies and procedures for the use of electronic or wire transfers to pay claims or make investments.

Minnesota Statutes, section 471.381, subdivision 3, states that, "Electronic approval means any electronic identifier intended by the person making, executing, or adopting it to authenticate and validate a city, town, or county administrative action. Notwithstanding any other general or special law to the contrary, a statutory or home rules charter city, a town, or a county may use electronic approvals, which have the same validity and consequence as an actual signature. The city, town, or county must establish policies and procedures to ensure the validity of electronic approvals."

Minnesota Statutes, section 385.071 states that, "Electronic funds transfer is the process of value exchange via mechanical means without the use of checks, drafts, or similar negotiable instruments. Notwithstanding any other law to the contrary, a county may make electronic funds transfers for investment purposes and for all county expenditures. The county board shall establish policies and procedures for investment and expenditure transactions via electronic funds transfer."

Condition: The County is making various investment and expenditure transactions via EFT without a Board-approved policy related to the electronic transactions and ensuring the validity of electronic approvals.

Context: The County uses EFT's for investment transactions, payroll direct deposit, and payments to other governmental entities related to various taxes and fees, but does not have Board-approved policies in place related to electronic transactions or to ensure the validity of electronic approvals.

Effect: Noncompliance with Minn. Stat. §§ 471.381, subd. 3, and 385.071.

Cause: The County was unaware that Board-approved policies and procedures were required for payments made via EFT.

Recommendation: We recommend the County Board establish written policies and procedures for electronic funds transfers as required by Minn. Stat. §§ 471.381, subd. 3, and 385.071. We further recommend that the County Board include the policy controls mandated by the 2017 amendments to Minn. Stat. § 471.38. See 2017 Minn. Laws, ch. 52.

County's Response: *The County was unaware that Board-approved policies and procedures were required for payments made via EFT.*

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number: 2018-011

Prior Year Audit Finding Number: 2015-022

Finding Title: Disaster Recovery Plan

Criteria: The County needs to provide for the continuance of several important applications processed by its computer system, including the preparation of payroll, the calculation of tax assessments and settlements, and the recording of receipts and disbursements. A disaster recovery plan should include, but not be limited to, the following:

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and of all other County employees;
- a plan as to how the County will continue operations until normal operations are re-established; this should include the use of alternative computer facilities and/or the use of manual procedures, a list of master operating schedules, and critical job schedules;
- a list of materials the County needs to continue operations and how they will be obtained;
- hardware configurations and minimum equipment requirements;
- information relative to offsite backup storage facilities;
- a list of vendor contracts;
- identification of the space to be used; and
- a schedule for developing and periodically reviewing and updating the plan.

Condition: The County has informal disaster recovery procedures in place with their information technology (IT) consultants, but does not have a formal disaster recovery plan.

Context: A disaster recovery plan would give greater assurance the County is prepared for a disaster or major computer breakdown.

Effect: In the event a disaster occurred, the County could experience a delay in providing services or reporting financial information to the public.

Cause: The County has informal procedures in place with their IT consultants but has not prepared a formal plan.

Recommendation: We recommend the County continue to develop, implement, and test the disaster recovery plan. The County Board should approve a formal plan, and all County employees should be familiar with the plan.

County's Response: *The County will work towards a more detailed Disaster Recovery Plan that will be reviewed and approved by the county Board.*

III. ITEMS RESOLVED THIS YEAR

- 2015-004 Journal Entry Controls
- 2015-009 Sheriff's Internal Control Deficiencies
- 2015-011 Fund Balance Reporting
- 2015-023 Social Welfare Fund Activity

Red Lake County Auditors Office

Bob Schmitz, County
Auditor

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2018

Finding Number: 2018-001
Prior Year Audit Finding Number: 1996-004
Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action: Bob Schmitz, County Auditor

Summary of Corrective Action Previously Reported: Management is aware of the situation and continues to monitor. Due to limited staff the segregation of duties is not always possible.

Anticipated Completion Date: Not fully corrected. Monitor on an on-going basis.

Finding Number: 2018-002
Prior Year Audit Finding Number: 2007-001
Finding Title: Documenting and Monitoring Internal Controls

Name of Contact Person Responsible for Corrective Action: Bob Schmitz, County Auditor; Nick Knott, County Treasurer

Summary of Corrective Action Previously Reported: The county will continue its efforts to develop and update policy to assess and monitor internal controls. The County Investment Policy will be updated to comply with SIPC Policy to manage custodial risk.

Anticipated Completion Date: Not fully corrected. Update on a continuous basis.

Finding Number: 2018-003
Prior Year Audit Finding Number: 2015-001
Finding Title: Audit Adjustments

Name of Contact Person Responsible for Corrective Action: Bob Schmitz, County Auditor

Summary of Corrective Action Previously Reported: The County will provide increased review of the unaudited financial information to reduce the number of audit adjustments before releasing the information used in completing the annual financial audit.

Anticipated Completion Date: Commence in conjunction with the release of audited reports for fiscal 2021.

Finding Number: 2018-004
Prior Year Audit Finding Number: 2015-003
Finding Title: Management and Audit Responsibilities

Name of Contact Person Responsible for Corrective Action: Bob Schmitz, County Auditor; Courtney Kleven, County Highway Engineer; Penny Grove, Social Services Fiscal Supervisor

Summary of Corrective Action Previously Reported: The County will increase its role in providing supporting calculations/documentation for the information used in reporting capital assets, contracts payable, compensated absences, and OPEB.

Anticipated Completion Date: Commence in conjunction with the release of our audited financial reports for fiscal 2021.

Finding Number: 2018-005
Prior Year Audit Finding Number: 2015-005
Finding Title: Capital Assets

Name of Contact Person Responsible for Corrective Action: Bob Schmitz, County Auditor

Summary of Corrective Action Previously Reported: The County Board of Commissioners will establish a Capital Asset Policy to assist in the County's accounting policies and in the procedures the various County departments use to identify capital asset additions, deletions, and etc.

Anticipated Completion Date: December 31, 2021.

Finding Number: 2018-006
Prior Year Audit Finding Number: 2015-006
Finding Title: Inventory Records

Name of Contact Person Responsible for Corrective Action: Jerilyn Swenson, Interim County Engineer

Summary of Corrective Action Previously Reported: The County Highway Department will track withdrawals of inventory on an annual basis and update the County Inventory System.

Anticipated Completion Date: December 31, 2021.

Finding Number: 2018-007
Prior Year Audit Finding Number: 2015-010
Finding Title: Budgeting Procedures

Name of Contact Person Responsible for Corrective Action: Bob Schmitz, County Auditor; Courtney Kleven, County Highway Engineer; Penny Grove, Social Services Fiscal Supervisor; Kristi Nelson, Social Services Director

Summary of Corrective Action Previously Reported: Responsible supervisory staff in the three main fund departments will monitor the process to ensure proper completion.

Anticipated Completion Date: December 31, 2019.

Finding Number: 2018-008
Prior Year Audit Finding Number: 2015-015
Finding Title: Publishing Requirements

Name of Contact Person Responsible for Corrective Action: Bob Schmitz, County Auditor

Summary of Corrective Action Previously Reported: The County will publish the budget summary and minutes according to MN Statute requirements.

Anticipated Completion Date: Immediately.

Finding Number: 2018-009

Prior Year Audit Finding Number: 2015-018

Finding Title: Credit Card Use

Name of Contact Person Responsible for Corrective Action: Mitch Bernstein, County Sheriff

Summary of Corrective Action Previously Reported: The County Sheriff will seek approval from the County Board of Commissioners to continue use of a county credit card for his department.

Anticipated Completion Date: December 31, 2021.

Finding Number: 2018-010

Prior Year Audit Finding Number: 2015-019

Finding Title: Electronic Funds Transfer (EFT) Policies and Procedures

Name of Contact Person Responsible for Corrective Action: Nick Knott, County Treasurer; Bob Schmitz, County Auditor.

Summary of Corrective Action Previously Reported: The County will establish a written policy for electronic fund transfer procedures to pay claims and make investments.

Anticipated Completion Date: December 31, 2021.

Finding Number: 2018-011

Prior Year Audit Finding Number: 2015-022

Finding Title: Disaster Recovery Plan

Name of Contact Person Responsible for Corrective Action: Penny Grove, Social Services Fiscal Supervisor; Bob Schmitz, County Auditor

Summary of Corrective Action Previously Reported: A more comprehensive plan will be developed by a small committee including one representative from Social Services, the County Auditor, and any other key personnel as identified by the County Auditor. Planning has begun with full plan to be presented to the County Board for approval in 2021.

Anticipated Completion Date: December 31, 2021.

Red Lake County Auditors Office

Bob Schmitz, County
Auditor

SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2018

Finding Number: 1996-004

Finding Title: Segregation of Duties

Summary of 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.

Summary of Corrective Action: Management is continually aware that segregation of duties is not adequate from an internal control point of view. The County Board continues to implement oversight procedures and monitor those procedures to determine if they are still effective.

Status: Not corrected.

Finding Number: 2007-001

Finding Title: Internal Controls

Summary of 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 monitoring to ensure the internal controls are effective.

Summary of Corrective Action: The County has begun to formalize written documentation of their internal controls and the monitoring process to ensure the reliability of financial reporting and the effectiveness and efficiency of operations.

Status: Not corrected.

Finding Number: 2015-001

Finding Title: Audit Adjustments

Summary of Condition: Material audit adjustments were identified that resulted in significant changes to the County's financial statements.

Summary of Corrective Action: The County will provide increased review of the unaudited financial information to reduce the number of audit adjustments before releasing the information used in completing the annual financial audit.

Status: Not fully corrected.

Finding Number: 2015-003

Finding Title: Management and Audit Responsibilities

Summary of Condition: In addition to providing audit services, the County relied on its prior external auditors to make determinations and maintain records for financial reporting relevant to capital assets, contracts payable, salaries payable, compensated absences, and net other postemployment benefits.

Summary of Corrective Action: The County will increase its role in providing supporting calculations/documentation for the information used in reporting capital assets, contracts payable, compensated absences, and OPEB.

Status: Not fully corrected.

Finding Number: 2015-004

Finding Title: Journal Entry Controls

Summary of Condition: There was no documented review and approval for journal entries entered in the general ledger system. Additionally, two of the five journal entries tested had no supporting documentation on file.

Summary of Corrective Action: Journal entries are reviewed and approved by the County Auditor or appropriate supervisor before being entered to the general ledger. Supporting documentation has been provided in the past and will continue to be provided to substantiate journal entries.

Status: Fully Corrected.

Finding Number: 2015-005

Finding Title: Capital Assets

Summary of Condition: The County Board has not adopted formal capital asset policies or procedures. The following deficiencies related to capital assets were noted:

- Non-depreciable capital assets: construction in progress was decreased for infrastructure projects completed during the year that were also recorded as depreciable capital assets.
- No supporting documentation is required for disposal of assets. At the end of the year, department heads review a listing of assets and cross off assets no longer in use.
- Additions to capital assets are listed on the County's Property and Equipment Record form, but additional documentation supporting those additions, such as when the asset was acquired or the cost of the asset, is not required and, therefore, not used to verify asset additions.
- Department head review of asset listings and annual physical inventories of assets are not documented.
- The County could not provide support for the capitalization thresholds or useful lives of capital assets used for financial reporting purposes and indicated it neither calculates nor tracks depreciation.

Summary of Corrective Action: The County Board of Commissioners will establish a Capital Asset Policy to assist in the County's accounting policies and in the procedures the various County departments use to identify capital asset additions, deletions, and etc.

Status: Not fully corrected.

Finding Number: 2015-006

Finding Title: Inventory Records

Summary of Condition: A test of the year-end inventory count prepared by County staff revealed that not all inventory was counted or measured. The County Highway Engineer estimates the

quantity of gravel.

Summary of Corrective Action: The County Highway Department will track withdrawals of inventory on an annual basis and update the County Inventory System.

Status: Not fully corrected.

Finding Number: 2015-009

Finding Title: Sheriff's Office Internal Control Deficiencies

Summary of Condition: Several internal control deficiencies were noted in the Sheriff's Office:

- Checks are not promptly stamped with a restrictive endorsement upon receipt, but rather are stamped with the deposit or remittance is prepared.
- The Sheriff's Office credit cards are being used for other County department expenditures. These are then reimbursed to the Sheriff's Office with a warrant and subsequently receipted as charges for services revenue in the Sheriff's Office.
- Bank reconciliations are not being performed on either of the two Sheriff's Office departmental checking accounts.

Summary of Corrective Action: The County now uses restrictive endorsement "For Deposit Only" stamp and the Office Manager stamps restrictive endorsement to checks as received. The credit card is only used for Sheriff Office purchases.

Status: Resolved.

Finding Number: 2015-010

Finding Title: Budgeting Procedures

Summary of Condition: Differences were noted between the Board approved budget and the budget entered into the County's financial system (IFS) for the General Fund. The Road and Bridge Special Revenue Fund budget was not entered into the IFS. Additionally, the Social Services Special Revenue Fund budget was entered into the IFS, but was not set as the original budget, and therefore, does not appear in general ledger downloads or financial statements generated from the system.

Summary of Corrective Action: Responsible supervisory staff in the three main fund departments will monitor the process to ensure proper completion.

Status: Not fully corrected.

Finding Number: 2015-011

Finding Title: Fund Balance Reporting

Summary of Condition: The County reported committed fund balances for various categories in the General Fund, and on category in the Road and Bridge Special Revenue Fund, for which County Board resolutions could not be located. In addition, the County has no basis for less significant restricted fund balance amounts in the Sheriff's Office. Also, the County did not account for a restriction for child protection services in the Social Services Special Revenue Fund.

Summary of Corrective Action: The County reviews fund balance commitments with the County Board of Commissioners committing resources to specific projects in all funds.

Status: Resolved.

Finding Number: 2015-015
Finding Title: Publishing Requirements

Summary of Condition: The County was not in compliance with the following State of Minnesota legal requirements:

- Minn. Stat. § 375.12: The affidavits of publication related to the publishing of a summary of the 2015 County Board Minutes were reviewed. The summaries were not published in the County's official newspaper within the 30-day requirement.
- Minn. Stat. § 375.169: The County did not publish the board approved budgets.

Summary of Corrective Action: The County will publish the budget summary and minutes according to MN Statute requirements.

Status: Not fully corrected.

Finding Number: 2015-018
Finding Title: Credit Card Use

Summary of Condition: The Sheriff and eight deputies have County credit cards. No record was provided of Board authorization for the use of the credit cards.

Summary of Corrective Action: The County Sheriff will seek approval from the County Board of Commissioners to continue use of a county credit card for his department.

Status: Not fully corrected.

Finding Number: 2015-019
Finding Title: Electronic Funds Transfer (EFT) Policies and Procedures

Summary of Condition: The County is making various investment and expenditure transactions via EFT without a Board-approved policy related to the electronic transactions and ensuring the validity of electronic approvals.

Summary of Corrective Action: The County will establish a written policy for electronic fund transfer procedures to pay claims and make investments.

Status: Not fully corrected.

Finding Number: 2015-022
Finding Title: Disaster Recovery Plan

Summary of Condition: The County has informal disaster recovery procedures in place with their information technology (IT) consultants, but does not have a formal disaster recovery plan.

Summary of Corrective Action: A more comprehensive plan will be developed by a small committee including one representative from Social Services, the County Auditor, and any other key personnel as identified by the County Auditor. Planning has begun with the full plan to be presented to the County Board for approval by December 31, 2021.

Status: Not fully corrected.

Finding Number: 2015-023

Finding Title: Social Welfare Fund Activity

Summary of Condition: The County has a social welfare checking account managed by the staff in the Social Services department. Within this bank account, the County is acting as agent for several private charity donation-based programs. Additionally, County staff are spending time on these charity programs, and time spent is not being reduced from State and Federal grant reporting.

Summary of Corrective Action: The County has discontinued acting as an agent for private charities by locating other entities to manage the donations programs.

Status: Resolved.