

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

YEAR ENDED DECEMBER 31, 2019



Hoffman, Philipp, & Martell, 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, 2019**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
<b>Commissioners</b>		
1 <sup>st</sup> District	Anthony Flage <sup>1</sup>	January 2023
2 <sup>nd</sup> District	Ron Weiss *	January 2021
3 <sup>rd</sup> District	Delane Dudycha <sup>2</sup>	January 2023
4 <sup>th</sup> District	Allen Remick <sup>3**</sup>	January 2023
5 <sup>th</sup> District	Charles Simpson	January 2021
*Chair		
**Vice-Chair		
<b>Officers</b>		
Elected:		
Attorney	Mike Lacoursiere	January 2023
Auditor	Robert Schmitz	January 2023
Recorder	Joyce Paquin	January 2023
Sheriff	Mitch Bernstein	January 2023
Treasurer	Nick Knott	January 2023
Appointed:		
Assessor	Nancy Amberson	December 2020
Medical Examiner	Dr. Mary Ann Sens	June 2020
Highway Engineer	Erik Hove <sup>4</sup>	May 2023
Veterans Service Officer	Kurtis Ellefson	December 2023
Environmental Services Director	Kurt Casavan	Indefinite
<b>Social Services Board</b>		
Chair	Ron Weiss <sup>5</sup>	January 2021
Vice-Chair	Allen Remick <sup>6</sup>	January 2023
Secretary	Anthony Flage <sup>7</sup>	January 2023
Member	Delane Dudycha <sup>8</sup>	January 2023
Member	Charles Simpson <sup>9</sup>	January 2021
Director	Kristi Nelson	Indefinite

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<sup>1</sup> Newly elected in January, 2019. Replaced David Sorensen.

<sup>2</sup> Newly elected in January, 2019. Replaced John Lerohl.

<sup>3</sup> Newly elected in January, 2019. Replaced Anthony Flage.

<sup>4</sup> Appointed in April, 2019. Replaced Interim Engineer Jerilyn Swenson.

<sup>5</sup> Newly appointed in January, 2019. Replaced David Sorensen.

<sup>6</sup> Appointed in 2019. Replaced Charles Simpson.

<sup>7</sup> Newly appointed in January, 2019. Replaced Ron Weiss.

<sup>8</sup> Newly appointed in January, 2019. Replaced John Lerohl.

<sup>9</sup> Appointed in 2019. Replaced Allen Remick.

## **FINANCIAL SECTION**



## Hoffman, Philipp, & Martell, 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, 2019, 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, 2019, 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 19, 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, & Martell, PLLC  
February 19, 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, 2019. 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 \$53,432,163, of which \$39,398,540 is the net investment in capital assets, \$12,850,416 is restricted for specific purposes, and \$1,183,207 is unrestricted. The total net position of governmental activities increased by \$4,305,537 for the year ended December 31, 2019. This is attributed mainly to the addition of infrastructure construction in the Road and Bridge Fund financed by State Aid.

At the close of 2019, the County's governmental funds reported combined ending fund balances of \$5,863,013, an increase of \$643,040 from the prior year. Of the total fund balance amount, \$227,962 is non-spendable, \$1,226,622 is legally or contractually restricted, \$3,297,540 is formally committed for specific purposes, and \$1,110,889 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 \$53,432,163 at the close of 2019. 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 24 percent of the County's net position is restricted, and 2 percent of the County's net position is unrestricted. The unrestricted net position amount of \$1,183,207 as of December 31, 2019, may be used to meet the County's ongoing obligations to citizens.

The County's overall financial position increased from last year. Total assets increased by \$4,162,653 from the prior year, deferred outflows of resources related to other post-employment benefits and pensions decreased by \$408,925, total liabilities decreased by \$221,100 from the prior year, and deferred inflows of resources related to other post-employment benefits and pensions decreased by \$330,709. This resulted in an increased net position of \$4,305,537 from the prior year.

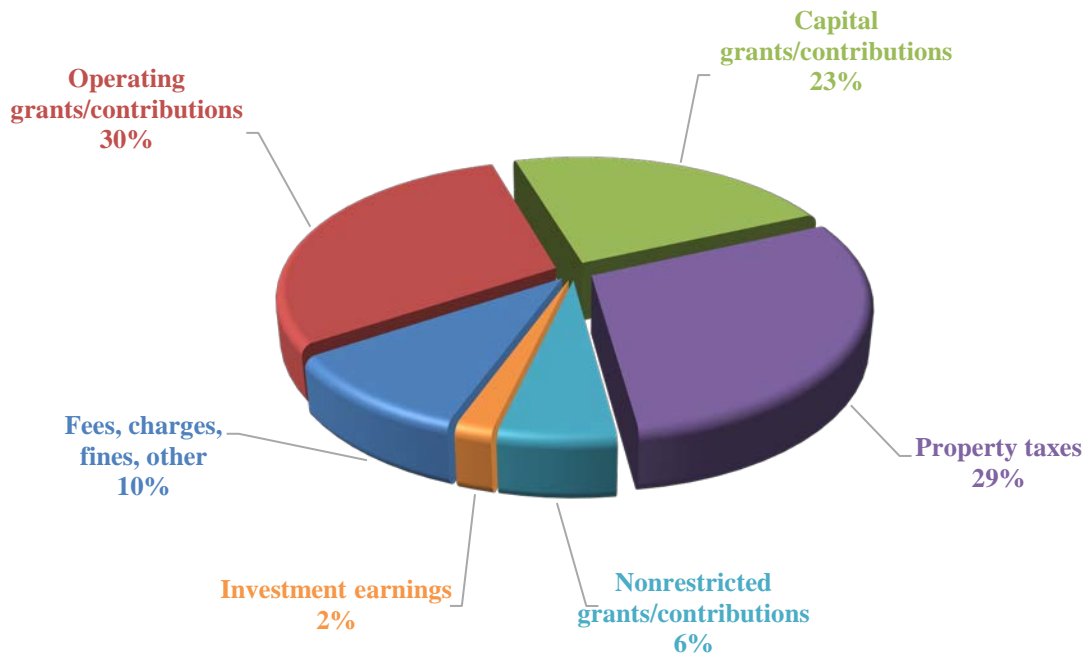
**NET POSITION**

	Governmental Activities	
	2019	2018
Current and other assets	\$ 17,823,023	\$ 16,620,286
Special assessments - noncurrent	9,438	18,877
Capital assets	39,398,540	36,429,185
<b>Total assets</b>	<b>\$ 57,231,001</b>	<b>\$ 53,068,348</b>
Deferred outflows of resources		
Related to other post-employment benefits	\$ 9,729	\$ 13,832
Related to pensions	708,458	1,113,280
<b>Total deferred outflows or resources</b>	<b>\$ 718,187</b>	<b>\$ 1,127,112</b>
Other liabilities	\$ 679,026	\$ 820,914
Long-term liabilities outstanding	2,664,739	2,743,951
<b>Total liabilities</b>	<b>\$ 3,343,765</b>	<b>\$ 3,564,865</b>
Deferred inflows of resources		
Related to other post-employment benefits	\$ 5,714	\$ -
Related to pensions	1,167,546	1,503,969
<b>Total deferred inflows of resources</b>	<b>\$ 1,173,260</b>	<b>\$ 1,503,969</b>
Net investment in capital assets	\$ 39,398,540	\$ 36,429,185
Restricted	12,850,416	12,142,103
Unrestricted	1,183,207	555,338
<b>Total net position</b>	<b>\$ 53,432,163</b>	<b>\$ 49,126,626</b>

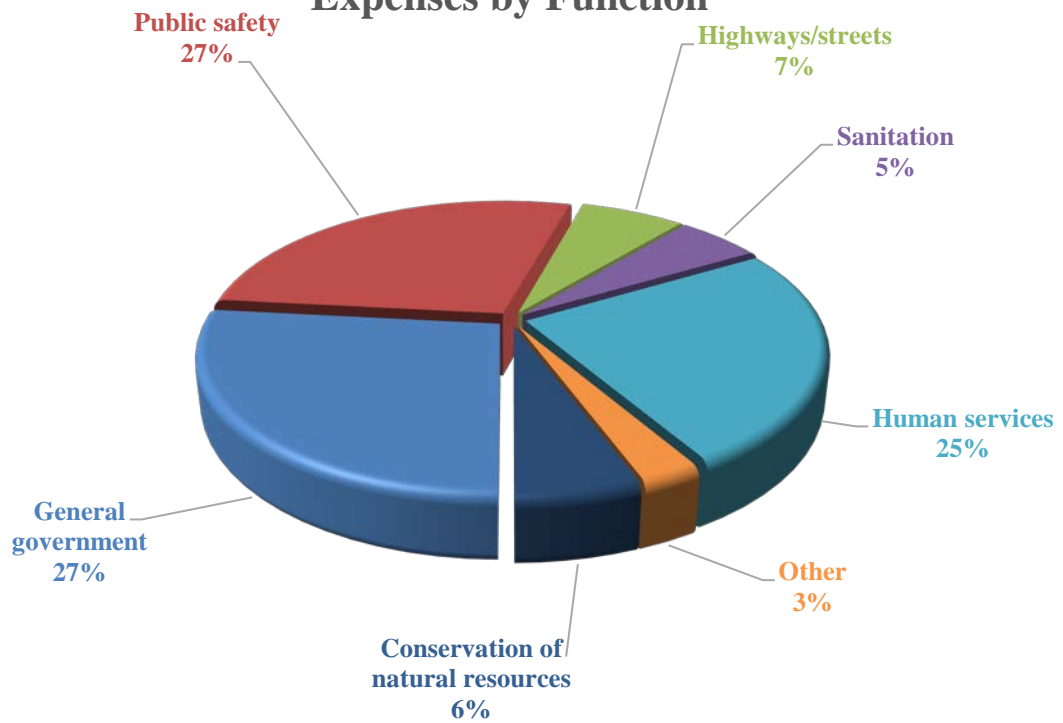
**CHANGES IN NET POSITION**

	Governmental Activities	
	2019	2018
Revenues		
Program Revenues		
Fees, charges, fines and other	\$ 955,125	\$ 1,022,605
Operating grants and contributions	2,901,367	2,825,556
Capital grants and contributions	2,224,088	3,115,464
General Revenues		
Property taxes	2,890,784	2,827,192
Grants and contributions not restricted to specific programs	568,113	569,548
Payments in lieu of taxes	-	13,257
Investment earnings	181,222	(47,857)
Miscellaneous	29,281	36,991
<b>Total revenues</b>	<b>\$ 9,749,980</b>	<b>\$ 10,362,756</b>
Expenses		
General government	\$ 1,451,533	\$ 1,230,191
Public safety	1,505,305	1,484,125
Highways and streets	368,733	3,076,842
Sanitation	298,205	162,340
Human services	1,358,781	1,547,786
Health	63,957	61,888
Culture and recreation	86,622	104,927
Conservation of natural resources	311,307	486,825
<b>Total expenses</b>	<b>\$ 5,444,443</b>	<b>\$ 8,154,924</b>
Increase (decrease)	\$ 4,305,537	\$ 2,207,832
Net position, January 1	49,126,626	46,918,794
<b>Net position, December 31</b>	<b>\$ 53,432,163</b>	<b>\$ 49,126,626</b>

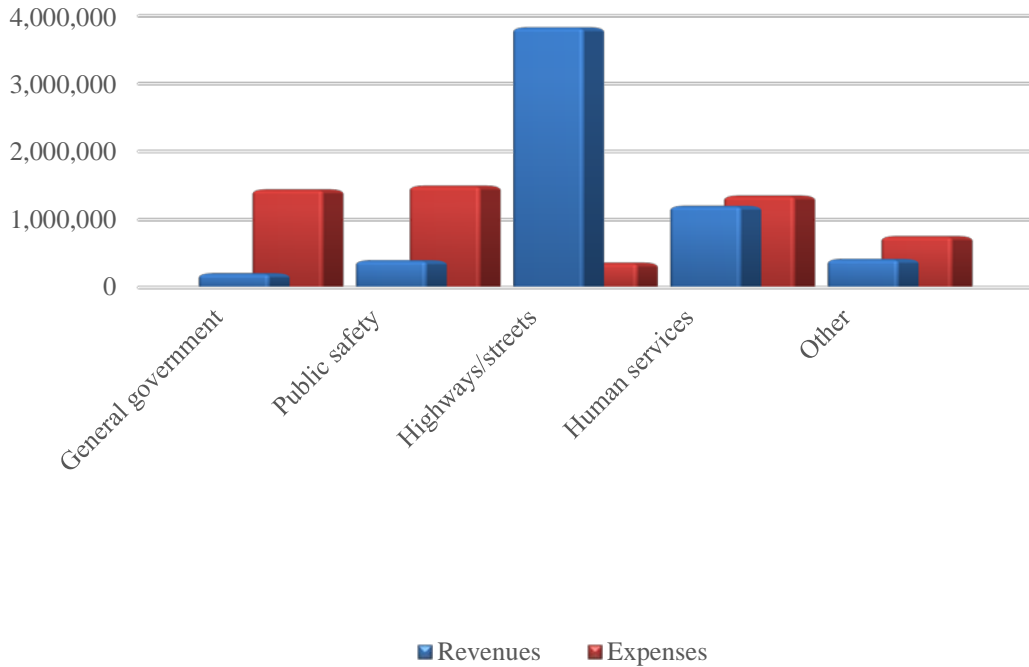
## Revenues by Source



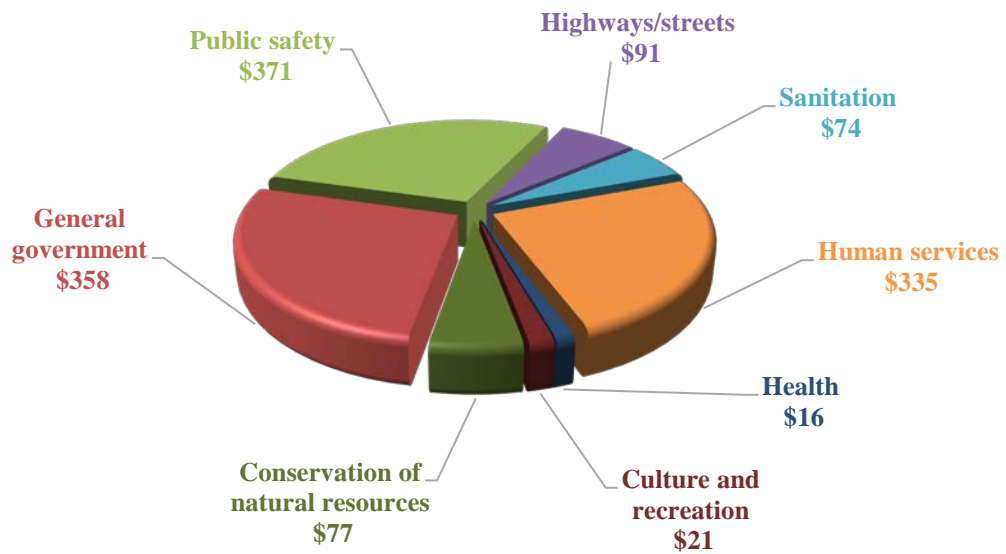
## Expenses by Function



## Program Revenues & Expenses



## Expenditures Per Capita 4,055 Population as of July 1, 2019



## 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 2019, the County's governmental funds reported combined ending fund balances of \$5,863,013. Of this amount, approximately 4 percent constitutes non-spendable fund balance, 21 percent constitutes legally or contractually restricted fund balance, 56 percent constitutes formally committed fund balance, and 19 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 \$1,907,761. The General Fund had no non-spendable or assigned fund balance. The restricted fund balance was \$402,524, and the committed fund balance was \$1,505,237. 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 2019. Both unrestricted fund balance and total fund balance represent 52 percent of total General Fund expenditures.

In 2019, the fund balance amount in the General Fund decreased by \$90,642 as a result of unbudgeted audit fees and underbudgeted Sheriff expenditures.

The fund balance of the Road and Bridge Special Revenue Fund increased by \$459,348 in 2019 due to increased charges for services and decreased expenditures.

The fund balance of the Social Services Special Revenue Fund increased by \$200,000 from the prior year due to expenditures under budget.

### GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the original budget as approved for 2019.

Actual revenues were more than overall final budgeted revenues by \$69,070, with the largest variance in taxes due to uncollected tax levy. Actual expenditures were more than overall final budgeted expenditures by \$143,357, with the largest variance in public safety.

### CAPITAL ASSETS AND LONG-TERM DEBT

#### Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2019, amounted to \$39,398,540 (net of accumulated depreciation). The total increase in the County's investment in capital assets for the current fiscal year was 8 percent, due to infrastructure construction.

	Governmental Activities	
	2019	2018
Land	\$ 997,274	\$ 997,274
Construction in progress	515,570	284
Infrastructure	36,441,240	34,104,531
Buildings and improvements	154,470	175,996
Machinery and equipment	1,289,986	1,151,100
Total capital assets	<u>\$ 39,398,540</u>	<u>\$ 36,429,185</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 6.3 percent as of December, 2019. This is higher than the statewide rate of 3.5 percent and the national average rate of 3.4 percent.
- Red Lake County's population according to the United States Census Bureau at July 1, 2019 was 4,055, a decrease of 34 since the census of 2010. This ranks Red Lake County 85<sup>th</sup> of 87 in the State of Minnesota.
- On December 24, 2019, Red Lake County set its 2020 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, 2019**

		<u>Governmental Activities</u>
<b><u>Assets</u></b>		
Cash and pooled investments	\$	4,435,678
Cash with fiscal agent		25,834
Investments		738,668
Taxes receivable - prior		53,605
Special assessments receivable - prior		981
Accounts receivable		9,562
Accrued interest receivable		27,651
Due from other governments		12,303,082
Inventories		227,962
Special assessments - noncurrent		9,438
Capital assets		
Non-depreciable		1,512,844
Depreciable - net of accumulated depreciation		37,885,696
<b>Total Assets</b>	<b>\$</b>	<b>57,231,001</b>
<b><u>Deferred Outflows of Resources</u></b>		
Related to other post-employment benefits	\$	9,729
Related to pensions		708,458
<b>Total Deferred Outflows of Resources</b>	<b>\$</b>	<b>718,187</b>
<b><u>Liabilities</u></b>		
<b>Current</b>		
Accounts payable	\$	27,780
Salaries payable		146,439
Contracts payable		108,983
Due to other governments		222,151
Compensated absences		173,673
<b>Noncurrent</b>		
Compensated absences		107,777
Other post-employment benefits		200,782
Net pension liability		2,356,180
<b>Total Liabilities</b>	<b>\$</b>	<b>3,343,765</b>
<b><u>Deferred Inflows of Resources</u></b>		
Related to other post-employment benefits	\$	5,714
Related to pensions		1,167,546
<b>Total Deferred Inflows of Resources</b>	<b>\$</b>	<b>1,173,260</b>
<b><u>Net Position</u></b>		
Net investment in capital assets	\$	39,398,540
Amounts restricted for		
General government		64,859
Public safety		3,412
Highways and streets		11,654,106
Conservation of natural resources		1,059,790
Economic development		68,249
Unrestricted amounts		1,183,207
<b>Total Net Position</b>	<b>\$</b>	<b>53,432,163</b>

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

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Fees, Charges, Fines and Other	Operating Grants and Contributions		Capital Grants and Contributions
<b>Functions/Programs</b>					
<b>Governmental activities</b>					
General government	\$ 1,451,533	\$ 150,371	\$ 61,293	\$ -	\$ (1,239,869)
Public safety	1,505,305	120,611	283,276	-	(1,101,418)
Highways and streets	368,733	268,074	1,353,592	2,211,539	3,464,472
Sanitation	298,205	20,209	68,910	-	(209,086)
Human services	1,358,781	298,185	910,536	-	(150,060)
Health	63,957	-	-	-	(63,957)
Culture and recreation	86,622	-	54,384	-	(32,238)
Conservation of natural resources	311,307	85,176	169,376	12,549	(44,206)
Economic development	-	12,499	-	-	12,499
<b>Total governmental activities</b>	<b>\$ 5,444,443</b>	<b>\$ 955,125</b>	<b>\$ 2,901,367</b>	<b>\$ 2,224,088</b>	<b>\$ 636,137</b>
<b>General revenues</b>					
Property taxes					\$ 2,890,784
Grants and contributions not restricted to specific programs					568,113
Investment earnings					181,222
Miscellaneous					29,281
<b>Total general revenues</b>					<b>\$ 3,669,400</b>
<b>Change in net position</b>					<b>\$ 4,305,537</b>
<b>Net position - January 1</b>					<b>49,126,626</b>
<b>Net position - December 31</b>					<b>\$ 53,432,163</b>

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

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2019**

	<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>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 1,798,722	\$ -	\$ 1,778,182	\$ 858,774	\$ 4,435,678
Cash with fiscal agent	25,834	-	-	-	25,834
Investments	73,696	664,972	-	-	738,668
Taxes receivable - prior	36,596	10,050	6,959	-	53,605
Special assessments receivable - prior	-	-	-	981	981
Accounts receivable	960	8,602	-	-	9,562
Accrued interest receivable	27,392	259	-	-	27,651
Due from other funds	34,676	6,500	-	-	41,176
Due from other governments	19,910	12,151,241	131,931	-	12,303,082
Inventories	-	227,962	-	-	227,962
Special assessments - noncurrent	9,438	-	-	-	9,438
<b>Total Assets</b>	<b>\$ 2,027,224</b>	<b>\$ 13,069,586</b>	<b>\$ 1,917,072</b>	<b>\$ 859,755</b>	<b>\$ 17,873,637</b>
<b><u>Liabilities, Deferred Inflows of Resources and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 7,407	\$ 13,810	\$ 6,563	\$ -	\$ 27,780
Salaries payable	74,024	37,288	35,127	-	146,439
Due to other funds	6,500	-	-	34,676	41,176
Due to other governments	3,298	197,845	21,008	-	222,151
Contracts payable	-	108,983	-	-	108,983
<b>Total Liabilities</b>	<b>\$ 91,229</b>	<b>\$ 357,926</b>	<b>\$ 62,698</b>	<b>\$ 34,676</b>	<b>\$ 546,529</b>
<b>Deferred Inflows of Resources</b>					
Taxes	\$ 18,796	\$ 5,162	\$ 3,574	\$ -	\$ 27,532
Special assessments	9,438	-	-	981	10,419
County State Aid Highway Allotment	-	11,426,144	-	-	11,426,144
<b>Total Deferred Inflows of Resources</b>	<b>\$ 28,234</b>	<b>\$ 11,431,306</b>	<b>\$ 3,574</b>	<b>\$ 981</b>	<b>\$ 11,464,095</b>
<b>Fund Balances</b>					
Non-spendable	\$ -	\$ 227,962	\$ -	\$ -	\$ 227,962
Restricted	402,524	-	-	824,098	1,226,622
Committed	1,505,237	1,052,392	739,911	-	3,297,540
Assigned	-	-	1,110,889	-	1,110,889
<b>Total Fund Balances</b>	<b>\$ 1,907,761</b>	<b>\$ 1,280,354</b>	<b>\$ 1,850,800</b>	<b>\$ 824,098</b>	<b>\$ 5,863,013</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 2,027,224</b>	<b>\$ 13,069,586</b>	<b>\$ 1,917,072</b>	<b>\$ 859,755</b>	<b>\$ 17,873,637</b>

**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, 2019**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>5,863,013</b>
<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>		39,398,540
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.</p>		11,464,095
<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>		(281,450)
<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>	\$ 9,729	
<p>Deferred inflows of resources related to other post-employment benefits</p>	(5,714)	
<p>Other post-employment benefits</p>	<u>(200,782)</u>	(196,767)
<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>	\$ 708,458	
<p>Deferred inflows of resources related to pensions</p>	(1,167,546)	
<p>Net pension liability</p>	<u>(2,356,180)</u>	<u>(2,815,268)</u>
<b>Net position of governmental activities (Exhibit 1)</b>	<b>\$</b>	<b><u>53,432,163</u></b>

**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, 2019**

	General Fund	Road and Bridge Special Revenue Fund	Social Services Special Revenue Fund	Nonmajor Ditch Special Revenue Fund	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 2,038,624	\$ 532,562	\$ 348,426	\$ -	\$ 2,919,612
Special assessments	12,549	-	-	89,534	102,083
Licenses and permits	40	-	-	-	40
Intergovernmental	960,588	2,969,083	976,816	-	4,906,487
Charges for services	253,379	250,373	139,782	70,743	714,277
Investment earnings	168,255	12,967	-	-	181,222
Miscellaneous	89,779	17,701	158,403	-	265,883
<b>Total Revenues</b>	<b>\$ 3,523,214</b>	<b>\$ 3,782,686</b>	<b>\$ 1,623,427</b>	<b>\$ 160,277</b>	<b>\$ 9,089,604</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 1,436,625	\$ -	\$ -	\$ -	\$ 1,436,625
Public safety	1,468,896	-	-	-	1,468,896
Highways and streets	-	2,620,619	-	-	2,620,619
Sanitation	305,569	-	-	-	305,569
Human services	35,549	-	1,355,542	-	1,391,091
Health	63,957	-	-	-	63,957
Culture and recreation	86,622	-	-	-	86,622
Conservation of natural resources	225,364	-	-	85,943	311,307
<b>Capital outlay</b>					
Public safety	22,239	-	-	-	22,239
Highways and streets	36,920	463,921	-	-	500,841
<b>Total Expenditures</b>	<b>\$ 3,681,741</b>	<b>\$ 3,084,540</b>	<b>\$ 1,355,542</b>	<b>\$ 85,943</b>	<b>\$ 8,207,766</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (158,527)</b>	<b>\$ 698,146</b>	<b>\$ 267,885</b>	<b>\$ 74,334</b>	<b>\$ 881,838</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$ 67,885	\$ -	\$ -	\$ -	\$ 67,885
Transfers out	-	-	(67,885)	-	(67,885)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 67,885</b>	<b>\$ -</b>	<b>\$ (67,885)</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Change in Fund Balance</b>	<b>\$ (90,642)</b>	<b>\$ 698,146</b>	<b>\$ 200,000</b>	<b>\$ 74,334</b>	<b>\$ 881,838</b>
<b>Fund Balance - January 1</b>	<b>1,998,403</b>	<b>821,006</b>	<b>1,650,800</b>	<b>749,764</b>	<b>5,219,973</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>(238,798)</b>	<b>-</b>	<b>-</b>	<b>(238,798)</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,907,761</b>	<b>\$ 1,280,354</b>	<b>\$ 1,850,800</b>	<b>\$ 824,098</b>	<b>\$ 5,863,013</b>

**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, 2019**

<b>Net change in fund balances - total governmental funds (Exhibit 5)</b>	<b>\$</b>	<b>881,838</b>
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> <p>Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Expenditures for general capital assets and infrastructure	\$ 4,512,107	
Current year depreciation	(1,409,040)	
Net book value of assets disposed	(133,712)	2,969,355
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.</p>		
Change in deferred inflows of resources		656,170
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Change in		
Inventories	\$ (238,798)	
Compensated absences payable	72,678	(166,120)
<p>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.</p>		
		(9,980)
<p>Net pension liability does not represent the impending use of current resources. Therefore, the change in the liability and the related deferrals are not reported in the governmental funds.</p>		
		(25,726)
<b>Change in net position of governmental activities (Exhibit 2)</b>	<b>\$</b>	<b><u>4,305,537</u></b>

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

***EXHIBIT 7***

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2019**

	<u>Agency (Statement 1)</u>
<b><u>Assets</u></b>	
Cash and pooled investments	\$ (35,475)
Accounts receivable	48,806
Due from other governments	<u>221,189</u>
<b>Total Assets</b>	<b><u>\$ 234,520</u></b>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 16,298
Due to other governments	<u>218,222</u>
<b>Total Liabilities</b>	<b><u>\$ 234,520</u></b>



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

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

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 committed 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, 2019, based on market prices. Pursuant to Minnesota Statute, § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Pooled investment earnings for 2019 were \$168,225. Total investment earnings for 2019 were \$181,222.

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 2019 and deferred special assessments collectible in 2020 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.

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 other post-employment benefits and 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, 2019. 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, 2019.

**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, 2019.

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, 2019, are as follows:

Governmental Funds	
Cash and pooled investments	\$ 4,435,678
Cash with fiscal agent	25,834
Investments	738,668
Fiduciary Funds	
Cash and pooled investments	(35,475)
Total cash and investments	\$ 5,164,705
Cash on hand	\$ 715
Checking accounts	167,856
Cash with fiscal agent	25,834
Savings accounts	529,493
Certificates of deposit	240,000
Investments	4,200,807
Total deposits and investments	\$ 5,164,705

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, 2019, no County 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, 2019, the County had the following investments and maturities:

	Fair Value	Less Than 1 Year	1-5 Years
Government Bonds	\$ 649,935	\$ -	\$ 649,935
Negotiable Certificates of Deposit	2,370,507	680,634	1,689,873
Minnesota Municipal Money Market Funds	12,683	12,683	-
Cash/Money Market Funds	1,167,682	1,167,682	-
Total Investments	\$ 4,200,807	\$ 1,860,999	\$ 2,339,808
	100%	44%	56%

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, 2019, is as follows:

	S & P Rating	Fair Value
Government Bonds	AAA	\$ 649,935
Negotiable Certificates of Deposit	N/A	2,370,507
Minnesota Municipal Money Market Funds	N/A	12,683
Cash/Money Market Funds	N/R	1,167,682
		\$ 4,200,807

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, 2019, the County had no investments 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, 2019, \$1,970,305 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, 2019, the County had the following recurring fair value measurements:

	December 31, 2019	Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)
Investments by fair value level			
Government bonds	\$ 649,935	\$ 649,935	\$ -
Money market funds	1,180,365	1,180,365	-
Negotiable certificates of deposit	2,370,507	-	2,370,507
Total Investments	<u>\$ 4,200,807</u>	<u>\$ 1,830,300</u>	<u>\$ 2,370,507</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, 2019, 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	\$ 53,605	\$ -
Special assessments	10,419	9,438
Accounts	9,562	-
Accrued interest	27,651	-
Due from other governments	12,303,082	-
Total	\$ 12,404,319	\$ 9,438

3. Capital Assets

Capital asset activity for the year ended December 31, 2019, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 997,274	\$ -	\$ -	\$ 997,274
Construction in progress	284	515,286	-	515,570
Total capital assets not depreciated	\$ 997,558	\$ 515,286	\$ -	\$ 1,512,844
Capital assets being depreciated				
Infrastructure	\$ 51,938,407	\$ 3,473,741	\$ -	\$ 55,412,148
Buildings and improvements	1,326,653	-	-	1,326,653
Machinery and equipment	3,410,163	523,080	463,499	3,469,744
Total capital assets being depreciated	\$ 56,675,223	\$ 3,996,821	\$ 463,499	\$ 60,208,545
Less: accumulated depreciation for				
Infrastructure	\$ 17,833,876	\$ 1,137,032	\$ -	\$ 18,970,908
Buildings and improvements	1,150,657	21,526	-	1,172,183
Machinery and equipment	2,259,063	250,482	329,787	2,179,758
Total accumulated depreciation	\$ 21,243,596	\$ 1,409,040	\$ 329,787	\$ 22,322,849
Total capital assets, depreciated, net	\$ 35,431,627	\$ 2,587,781	\$ 133,712	\$ 37,885,696
Governmental Activities Capital Assets, Net	\$ 36,429,185	\$ 3,103,067	\$ 133,712	\$ 39,398,540

**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		77,622
Highways and streets, including depreciation of infrastructure assets		1,308,805
Human services		12,372
Sanitation		2,260
Total Depreciation Expense	\$	1,409,040

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2019, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	
General Fund	Ditch Special Revenue Fund	\$ 34,676	Ditch 10 collections
Road & Bridge Special Revenue Fund	General Fund	6,500	Interest receipted to wrong fund
Total Due To/From Other Funds		\$ 41,176	

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	\$ 21,621	Reimburse personnel costs
	Social Services Special Revenue Fund	50,240	Rent
Total Operating Transfer to General Fund:		\$ 71,861	

**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, 2019 were as follows:

Accounts	\$	27,780
Salaries		146,439
Contracts		108,983
Due to other governments		222,151
Total Payables	\$	505,353

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 9<sup>th</sup> 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 \$124,206 at December 31, 2019, 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, 2019.

Long-term liability for activity for the governmental activities for the year ended December 31, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 354,128	\$ 224,631	\$ 297,309	\$ 281,450	\$ 173,673
OPEB Liability	200,619	163	-	200,782	-
Net Pension Liability	2,398,853	-	42,673	2,356,180	-
	\$ 2,953,600	\$ 224,794	\$ 339,982	\$ 2,838,412	\$ 173,673

**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, 2019, are summarized below by fund:

	Taxes	Special Assessments	CSAH	Total
Governmental funds				
General	\$ 18,796	\$ -	\$ -	\$ 18,796
Road & Bridge	5,162	-	11,426,144	11,431,306
Social Services	3,574	-	-	3,574
Ditch	-	10,419	-	10,419
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>\$ 27,532</u>	<u>\$ 10,419</u>	<u>\$ 11,426,144</u>	<u>\$ 11,464,095</u>

D. Fund Balances

Fund balances at year-end December 31, 2019, were as follows:

	General Fund	Special Revenue Funds		Nonmajor Ditch Special Revenue Fund	Total Governmental Funds
		Road and Bridge	Social Services		
Nonspendable					
Inventories	\$ -	\$ 227,962	\$ -	\$ -	\$ 227,962
Restricted for					
Attorney's forfeiture	\$ 1,285	\$ -	\$ -	\$ -	1,285
Conservation of natural resources	-	-	-	824,098	824,098
Gravel pit restoration	62,006	-	-	-	62,006
Landslide acquisition	68,249	-	-	-	68,249
Law library	6,229	-	-	-	6,229
Recorder's equipment	57,345	-	-	-	57,345
Recorder's technology	30,312	-	-	-	30,312
Riparian Protection Aid	173,686	-	-	-	173,686
Sheriff's contingent fund	3,277	-	-	-	3,277
Sheriff's forfeited property	135	-	-	-	135
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total restricted	<u>\$ 402,524</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 824,098</u>	<u>\$ 1,226,622</u>
Committed to					
Building improvements	\$ -	\$ -	\$ 100,000	\$ -	\$ 100,000
Courthouse equipment	5,460	-	-	-	5,460
Future expenditures	1,427,777	1,052,392	639,911	-	3,120,080
Landfill well monitoring	20,000	-	-	-	20,000
Solid waste	52,000	-	-	-	52,000
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total committed	<u>\$ 1,505,237</u>	<u>\$ 1,052,392</u>	<u>\$ 739,911</u>	<u>\$ -</u>	<u>\$ 3,297,540</u>
Assigned to					
Social services	\$ -	\$ -	\$ 1,110,889	\$ -	\$ 1,110,889
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Fund Balances	<u>\$ 1,907,761</u>	<u>\$ 1,280,354</u>	<u>\$ 1,850,800</u>	<u>\$ 824,098</u>	<u>\$ 5,863,013</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 2019, there were 61 participants in the plan including 4 retirees. The implicit rate subsidy amount was determined by an actuarial study to be \$9,729 for 2019.

B. Total OPEB Liability

The County's total OPEB liability of \$200,782 was determined by an actuarial valuation date of January 1, 2018 and measurement date of January 1, 2019.

The total OPEB liability in the fiscal year-end December 31, 2019, 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, 2019
Reporting Date:	December 31, 2019
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:	3.80%
20-Year Municipal Bond Yield:	3.80%
Inflation Rate:	2.50%
Salary Increases:	3.00%
Medical Trend Rate:	6.25% as of January 1, 2019, grading to 5.00% over 5 years

The current year discount rate is 3.80 percent, which is a change from the prior year rate of 3.30 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 3.80 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 3.80%, 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	2.80%	\$	217,263
Current Discount Rate	3.80%	\$	200,782
1% Higher	4.80%	\$	185,482

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%	\$	177,675
Current Discount Rate	6.25%	\$	200,782
1% Higher	7.25%	\$	228,272

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 3.80% 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 3.00%. 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.

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 \$19,709.

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	-	5,714
Estimated employer contributions	9,729	-
Total	\$ 9,729	\$ 5,714

The \$9,729 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, 2020.

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

IV. Other Post-Employment Benefits (OPEB)

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

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:	Future Recognition
2020	\$ (1,143)
2021	\$ (1,143)
2022	\$ (1,143)
2023	\$ (1,143)
2024	\$ (1,142)

G. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2019:

- The discount rate was changed from 3.30% to 3.80%.

V. Defined Benefit Pension Plans

A. Plan Descriptions

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

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

V. Defined Benefit Pension Plans (Continued)

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.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

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 (Continued)

Annuities, disability benefits, and survivor benefits are increased every January 1. Beginning January 1, 2019, the postretirement increase will be fixed at 1 percent. Recipients that have been receiving the annuity of benefit for at least 36 months as of June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

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 2019 and 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, 2019, were \$180,862. Red Lake County's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Police and Fire member's contribution rates increased from 10.8 percent of pay to 11.3 percent, and employer rates increased from 16.2 percent to 16.95 percent on January 1, 2019. Red Lake County's contributions to the Police and Fire Fund for the year ended December 31, 2019, were \$91,883. 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, 2019, Red Lake County reported a liability of \$1,807,910 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 2019. The State of Minnesota is 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 \$56,164. The net pension liability was measured as of June 30, 2019, 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  
RED LAKE FALLS, MINNESOTA**

V. Defined Benefit Pension Plans

D. Pension Costs

1. General Employees Fund Pension Costs (Continued)

Red Lake County's proportionate share of the net pension liability was based on Red Lake County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019. At June 30, 2019, Red Lake County's proportionate share was .0327 percent which was a decrease of .0008 percent from its proportion measured as of June 30, 2018.

Proportionate share of the net pension liability	\$ 1,807,910
State of Minnesota's proportionate share of the net pension liability associated with Red Lake County	56,164
Total	\$ 1,864,074

There were no provision changes during the measurement period.

For the year ended December 31, 2019, Red Lake County recognized pension expense of \$148,613 for its proportionate share of the General Employees Plan's pension expense. In addition, Red Lake County recognized an additional \$4,206 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, 2019, 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	\$ 51,191	\$ -
Changes in actuarial assumptions	-	146,352
Net collective difference between projected and actual investment earnings	-	190,350
Changes in proportion	4,059	55,630
Contributions paid to PERA subsequent to the measurement date	92,392	-
Total	\$ 147,642	\$ 392,332

\$92,392 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

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

V. Defined Benefit Pension Plans

D. Pension Costs

1. General Employees Fund Pension Costs (Continued)

Year ended December 31:	Pension Expense Amount:
2020	\$ (118,489)
2021	\$ (173,292)
2022	\$ (48,215)
2023	\$ 2,914
2024	\$ -

2. Police and Fire Fund Pension Costs

At December 31, 2019, Red Lake County reported a liability of \$548,270 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2019, 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 Red Lake County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019, relative to the total employer contributions received from all PERA's participating employers. At June 30, 2019, Red Lake County's proportionate share was .0515 percent which was an increase of .0008 percent from its proportionate share measured as of June 30, 2018. Red Lake County also recognized \$6,952 for the year ended December 31, 2019 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 until the plan is 90 percent funded or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. In addition, the state will pay \$4.5 million on October 1, 2018 and October 1, 2019 in direct state aid. Thereafter, by October 1 of each year, the state will pay \$9 million until full funding is reached or July 1, 2048, whichever is earlier.

There were no provision changes during the measurement period.

For the year ended December 31, 2019, Red Lake County recognized pension expense of \$92,822 for its proportionate share of the Police and Fire Plan's pension expense.

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

V. Defined Benefit Pension Plans

D. Pension Costs

2. Police and Fire Fund Pension Costs (Continued)

As of December 31, 2019, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 22,697	\$ 74,540
Changes in actuarial assumptions	406,386	586,558
Net collective difference between projected and actual investment earnings	-	114,116
Changes in proportion	86,206	-
Contributions paid to PERA subsequent to the measurement date	<u>45,527</u>	<u>-</u>
Total	<u>\$ 560,816</u>	<u>\$ 775,214</u>

\$45,527 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	<u>Pension Expense Amount:</u>
2020	\$ (21,255)
2021	\$ (61,258)
2022	\$ (183,180)
2023	\$ 4,811
2024	\$ 957

E. Actuarial Assumptions

The total pension liability in the June 30, 2019, 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%



**RED LAKE COUNTY  
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, and 1.0 percent per year for the Police and Fire Plan.

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The most recent four-year experience study for the Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2019:

General Employees Fund

*Changes in Actuarial Assumptions*

- The morality projection scale was changed from MP-2017 to MP-2018.

*Changes in Plan Provisions*

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

Police and Fire Fund

*Changes in Actuarial Assumptions*

- The morality projection scale was changed from MP-2017 to MP-2018.

*Changes in Plan Provisions*

- There have been no changes since the prior valuation.

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 long-term expected rate of return on pensions plan investments is 7.5 percent.

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

V. Defined Benefit Pension Plans

E. Actuarial Assumptions (Continued)

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	35.5%	5.10%
Private Markets	25.0%	5.90%
Fixed Income	20.0%	0.75%
International Equity	17.5%	5.90%
Cash Equivalents	2.0%	0.00%

F. Discount Rates

The discount rate used to measure the total pension liability in 2019 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 and the Police and Fire 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		
<b>General Employees Fund</b>			<b>Police and Fire Fund</b>		
1% Lower	6.50%	\$ 2,972,106	1% Lower	6.50%	\$ 1,198,415
Current Discount Rate	7.50%	\$ 1,807,910	Current Discount Rate	7.50%	\$ 548,270
1% Higher	8.50%	\$ 846,834	1% Higher	8.50%	\$ 11

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](http://www.mnpera.org).

**RED LAKE COUNTY  
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**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 2019 were:

Contribution Amount		Percentage of Cover Payroll		Required Rate
Employee	Employer	Employee	Employer	
\$ 3,849	\$ 3,849	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 commercial insurance. There

**RED LAKE COUNTY  
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VII. Summary of Significant Contingencies and Other Items

B. Risk Management (Continued)

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 2019 and 2020. 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, Mahnommen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau counties.

The purpose of the HSEM Region 3 Emergency Managers Joint Powers Board is to engage in planning, training, and/or the purchase of equipment in order to better respond to emergencies and natural and other disasters within HSEM Region 3; specifically within the jurisdictional boundaries of the member counties. The HSEM Region 3 Emergency Managers Joint Powers Board charges sufficient rates so that the participating members experience no financial benefit or burden.

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

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, 2019. Complete financial information can be obtained from the Clay County Sheriff's Office, 915 9<sup>th</sup> 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 \$22,457 to the Nursing Service for the year ended December 31, 2019. 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 Pennington County

**RED LAKE COUNTY  
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VII. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Inter-County Nursing Service (Continued)

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, 2019. 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).

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.

**RED LAKE COUNTY  
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VII. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northwest Minnesota Regional Radio Board (Continued)

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 \$2,500 in contributions to the NMRRB for the year ended December 31, 2019. 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, 2019. Complete financial information can be obtained from the Red Lake Watershed District, P.O. Box 803, Thief River Falls, Minnesota 56701.

Northwest Service Cooperative

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

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VII. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northwest Service Cooperative (Continued)

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 made no contributions to the NWSC for the year ended December 31, 2019. Complete financial information can be obtained from the Northwest Service Cooperative, 114 First Street West, Thief River Falls, Minnesota 56701.

Pine to Prairie Drug and Violent Crime Task Force (PTPDTF)

The Pine to Prairie Drug and Violent Crime Task Force was formed under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes as Full Members the Counties of Lake of the Woods, Norman, Pennington, Polk, Red Lake, and Roseau, the Cities of Crookston, East Grand Forks, and Thief River Falls, and the US Customs and Border Protection and Homeland Security Investigations Department; as Associate Members the County of Red Lake and the City of Ada; and as Liaison Members the Counties of Kittson, and Marshall. The purpose of the Task Force is to coordinate efforts to investigate, apprehend, and prosecute drug, gang, and violent crime offenders.

Control of the Task Force is vested in the PTPDTF Governing Board, which shall consist of not less than 6 members or more than 14 members designated by each participating Full Member, and up to 5 additional members selected by the Governing Board. Board members shall not be deemed to be employees of the Task Force and shall not be compensated by it. Full Members shall assign a peace officer to be an Agent on the task force, Associate Members are not required to assign an officer but shall participate in operations and activities and contribute funds annually. Liaison Members shall participate upon request.

Dissolution would occur when two-thirds of the members agree by resolution to terminate the agreement or when necessitated by law or funding status at which time the net assets of the Task Force shall be divided among the members in the same proportion as their respective full-time equivalent contributions. Any member may withdraw upon six months written notice and shall not be entitled to any distribution of the assets.

Financing is provided by state and federal grants, charges for services, appropriations from members and donations. Members do not experience any additional financial benefit or burden. The City of Crookston is designated as the Coordinating Agency. Red Lake County made \$5,000 in contributions to the PTPDTF for the year ended December 31, 2019. Complete financial information can be obtained from the City of Crookston, 321 West Robert Street, Crookston, Minnesota, 56716.



**RED LAKE COUNTY  
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VII. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

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, 2019. 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.

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 2019. 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.

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

VII. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Tri-County Community Corrections (Continued)

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 \$185,963 to the Community Corrections for the year ended December 31, 2019. 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 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 2019, Red Lake County contributed \$1,350 to the Council of Collaboratives.

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

**RED LAKE COUNTY  
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VII. Summary of Significant Contingencies and Other Items (Continued)

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 2019, the County made \$500 in 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 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.

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

VII. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations (Continued)

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Becker, Beltrami, Clay, Clearwater, Itasca, Kittson, Lake of the Woods, Mahnommen, Marshall, McLeod, Morrison, Norman, Pennington, Polk, Red Lake, and Roseau Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, which is composed of ten directors, each with an alternate, who are appointed annually by each respective county board. The County's responsibility does not extend beyond making this appointment. Red Lake County reported \$2,200 in contributions to the Caucus for the year ended December 31, 2019.

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 2019, 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, 2019.

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 COUNTY  
RED LAKE FALLS, MINNESOTA**

VII. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations (Continued)

Red Lake Watershed District

The Red Lake Watershed District was formed pursuant to Minnesota Statutes, §§ 103D.201-.231, effective January 25, 1969, and includes land within Beltrami, Clearwater, Itasca, Koochiching, Mahnomen, Marshall, Pennington, Red Lake, and Roseau Counties. The purpose of the District is to conserve the natural resources of the state by land use planning, flood control, and other conservation projects by using sound scientific principles for the protection of the public health and welfare and the provident use of natural resources.

Control of the District is vested in the Red Lake Watershed District Board of Managers composed of seven members having staggered terms of three years each, with two appointed by the Polk County Board and one each appointed by the county boards of Beltrami, Clearwater, Marshall, Pennington, and Red Lake. Red Lake County, in an agent capacity, reports tax collections for the Red Lake Watershed as an agency fund on its financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

*Schedule 1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 2,444,134	\$ 2,444,134	\$ 2,038,624	\$ (405,510)
Special assessments	-	-	12,549	12,549
Licenses and permits	100	100	40	(60)
Intergovernmental	566,054	566,054	960,588	394,534
Charges for services	227,017	227,017	253,379	26,362
Investment earnings	95,000	95,000	168,255	73,255
Miscellaneous	121,839	121,839	89,779	(32,060)
<b>Total Revenues</b>	<b>\$ 3,454,144</b>	<b>\$ 3,454,144</b>	<b>\$ 3,523,214</b>	<b>\$ 69,070</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 188,162	\$ 188,162	\$ 175,099	\$ 13,063
District court	14,000	14,000	10,598	3,402
Law library	1,060	1,060	561	499
County auditor	201,599	201,599	203,057	(1,458)
County treasurer	125,075	125,075	130,728	(5,653)
County assessor	185,099	185,099	185,530	(431)
Elections	21,500	21,500	5,541	15,959
Professional services	26,000	26,000	99,688	(73,688)
Data processing	66,000	66,000	74,144	(8,144)
Personnel	84,005	84,005	79,118	4,887
Attorney	210,808	210,808	190,821	19,987
Recorder	104,021	104,021	94,839	9,182
GIS	5,000	5,000	10,625	(5,625)
Buildings and plant	101,303	101,303	94,389	6,914
Veterans service officer	22,300	22,300	22,989	(689)
Insurance	16,300	16,300	16,311	(11)
Other general government	76,500	76,500	42,587	33,913
<b>Total general government</b>	<b>\$ 1,448,732</b>	<b>\$ 1,448,732</b>	<b>\$ 1,436,625</b>	<b>\$ 12,107</b>
<b>Expenditures</b>				
<b>Public safety</b>				
Sheriff	\$ 1,017,164	\$ 1,017,164	\$ 1,120,697	\$ (103,533)
Community corrections	185,963	185,963	185,963	-
Coroner	11,450	11,450	13,006	(1,556)
Crime victim assistance	51,689	51,689	53,559	(1,870)
Enhanced 911	73,587	73,587	65,579	8,008
Emergency services	28,000	28,000	30,092	(2,092)
<b>Total public safety</b>	<b>\$ 1,367,853</b>	<b>\$ 1,367,853</b>	<b>\$ 1,468,896</b>	<b>\$ (101,043)</b>

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

***Schedule 1  
(Continued)***

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Sanitation</b>				
Solid waste	\$ 167,954	\$ 167,954	\$ 173,336	\$ (5,382)
Recycling	87,820	87,820	90,350	(2,530)
Individual Septic Treatment System	51,346	51,346	41,883	9,463
<b>Total sanitation</b>	<b>\$ 307,120</b>	<b>\$ 307,120</b>	<b>\$ 305,569</b>	<b>\$ 1,551</b>
<b>Human services</b>				
Committee on aging	\$ 8,435	\$ 8,435	\$ 8,435	\$ -
Buildings and grounds	14,000	14,000	27,114	(13,114)
<b>Total human services</b>	<b>\$ 22,435</b>	<b>\$ 22,435</b>	<b>\$ 35,549</b>	<b>\$ (13,114)</b>
<b>Health</b>				
Nursing service	\$ 22,457	\$ 22,457	\$ 22,457	\$ -
Ambulance	41,500	41,500	41,500	-
<b>Total health</b>	<b>\$ 63,957</b>	<b>\$ 63,957</b>	<b>\$ 63,957</b>	<b>\$ -</b>
<b>Culture and recreation</b>				
Parks	\$ 7,000	\$ 7,000	\$ 5,536	\$ 1,464
Regional library	26,732	26,732	26,732	-
Snowmobile and ski trails	50,000	50,000	54,354	(4,354)
<b>Total culture and recreation</b>	<b>\$ 83,732</b>	<b>\$ 83,732</b>	<b>\$ 86,622</b>	<b>\$ (2,890)</b>
<b>Conservation of natural resources</b>				
Cooperative extension	\$ 97,352	\$ 97,352	\$ 97,680	\$ (328)
Environmental services	32,993	32,993	64,774	(31,781)
Red River Basin	107	107	107	-
Soil and water conservation	69,303	69,303	62,003	7,300
Other conservation of natural resources	800	800	800	-
<b>Total conservation of natural resources</b>	<b>\$ 200,555</b>	<b>\$ 200,555</b>	<b>\$ 225,364</b>	<b>\$ (24,809)</b>



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

***Schedule 1  
(Continued)***

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures (Continued)</b>				
<b>Capital outlay</b>				
Public safety	\$ 44,000	\$ 44,000	\$ 22,239	\$ 21,761
Highways and streets	-	-	36,920	(36,920)
<b>Total capital outlay</b>	<b>\$ 44,000</b>	<b>\$ 44,000</b>	<b>\$ 59,159</b>	<b>\$ (15,159)</b>
<b>Total Expenditures</b>	<b>\$ 3,538,384</b>	<b>\$ 3,538,384</b>	<b>\$ 3,681,741</b>	<b>\$ (143,357)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (84,240)</b>	<b>\$ (84,240)</b>	<b>\$ (158,527)</b>	<b>\$ (74,287)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	69,240	69,240	67,885	(1,355)
<b>Net Change in Fund Balance</b>	<b>\$ (15,000)</b>	<b>\$ (15,000)</b>	<b>\$ (90,642)</b>	<b>\$ (75,642)</b>
<b>Fund Balance - January 1</b>	<b>1,998,403</b>	<b>1,998,403</b>	<b>1,998,403</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,983,403</b>	<b>\$ 1,983,403</b>	<b>\$ 1,907,761</b>	<b>\$ (75,642)</b>

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

**Schedule 2**

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 627,000	\$ 627,000	\$ 532,562	\$ (94,438)
Intergovernmental	2,513,000	2,513,000	2,969,083	456,083
Charges for services	155,000	155,000	250,373	95,373
Investment earnings	7,500	7,500	12,967	5,467
Miscellaneous	115,000	115,000	17,701	(97,299)
<b>Total Revenues</b>	<b>\$ 3,417,500</b>	<b>\$ 3,417,500</b>	<b>\$ 3,782,686</b>	<b>\$ 365,186</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 388,200	\$ 388,200	\$ 445,238	\$ (57,038)
Maintenance	915,100	915,100	983,107	(68,007)
Construction	1,308,000	1,308,000	539,109	768,891
Equipment maintenance and shop	501,150	501,150	361,516	139,634
Town roads	-	-	197,218	(197,218)
Other highways and streets	56,000	56,000	94,431	(38,431)
<b>Total highways and streets</b>	<b>\$ 3,168,450</b>	<b>\$ 3,168,450</b>	<b>\$ 2,620,619</b>	<b>\$ 547,831</b>
<b>Capital outlay</b>				
Highways and streets	520,000	520,000	463,921	56,079
<b>Total Expenditures</b>	<b>\$ 3,688,450</b>	<b>\$ 3,688,450</b>	<b>\$ 3,084,540</b>	<b>\$ 603,910</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (270,950)</b>	<b>\$ (270,950)</b>	<b>\$ 698,146</b>	<b>\$ 969,096</b>
<b>Fund Balance - January 1</b>	<b>821,006</b>	<b>821,006</b>	<b>821,006</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>(238,798)</b>	<b>(238,798)</b>
<b>Fund Balance - December 31</b>	<b>\$ 550,056</b>	<b>\$ 550,056</b>	<b>\$ 1,280,354</b>	<b>\$ 730,298</b>

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

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
SOCIAL SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 412,030	\$ 412,030	\$ 348,426	\$ (63,604)
Intergovernmental	998,527	998,527	976,816	(21,711)
Charges for services	136,100	136,100	139,782	3,682
Miscellaneous	83,950	83,950	158,403	74,453
<b>Total Revenues</b>	<b>\$ 1,630,607</b>	<b>\$ 1,630,607</b>	<b>\$ 1,623,427</b>	<b>\$ (7,180)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 904,614	\$ 904,614	\$ 863,302	\$ 41,312
Social services	725,993	725,993	492,240	233,753
<b>Total Expenditures</b>	<b>\$ 1,630,607</b>	<b>\$ 1,630,607</b>	<b>\$ 1,355,542</b>	<b>\$ 275,065</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 267,885</b>	<b>\$ 267,885</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(67,885)	(67,885)
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 200,000</b>	<b>\$ 200,000</b>
<b>Fund Balance - January 1</b>	<b>1,650,800</b>	<b>1,650,800</b>	<b>1,650,800</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,650,800</b>	<b>\$ 1,650,800</b>	<b>\$ 1,850,800</b>	<b>\$ 200,000</b>

**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, 2019**

	<u>2019</u>	<u>2018</u>
<b>Total OPEB Liability</b>		
Service cost	\$ 13,996	\$ 14,752
Interest cost	6,856	6,759
Differences between expected and actual experience	-	-
Changes of assumption or other inputs	(6,857)	(143,052)
Plan changes	-	-
Benefit payments	<u>(13,832)</u>	<u>(21,727)</u>
<b>Net change in total OPEB liability</b>	\$ 163	\$ (143,268)
<b>Total OPEB Liability - Beginning</b>	<u>200,619</u>	<u>343,887</u>
<b>Total OPEB Liability - Ending</b>	<u><u>\$ 200,782</u></u>	<u><u>\$ 200,619</u></u>
Covered-employee payroll	\$ 2,068,592	\$ 2,008,342
Total OPEB liability (asset) as a percentage of covered-employee payroll	9.71%	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, 2019**

**GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN**

<b>Fiscal Year Ending</b>	<b>Statutorily Required Contribution</b>	<b>Contributions in Relation to the Statutorily Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Payroll</b>	<b>Contributions as a Percentage of Covered Payroll</b>
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%
December 31, 2019	\$ 180,862	\$ 180,862	\$ -	\$ 2,415,073	7.5%

**PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN**

<b>Fiscal Year Ending</b>	<b>Statutorily Required Contribution</b>	<b>Contributions in Relation to the Statutorily Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Payroll</b>	<b>Contributions as a Percentage of Covered Payroll</b>
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%
December 31, 2019	\$ 91,883	\$ 91,883	\$ -	\$ 542,083	16.9%

*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, 2019**

**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%
June 30, 2019	0.0327%	\$ 1,807,910	\$ 56,164	\$ 1,864,074	\$ 2,310,856	78.24%	80.23%

**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%
June 30, 2019	0.0515%	\$ 548,270	\$ -	\$ 548,270	\$ 542,846	101.00%	89.26%

*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, 2019**

**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, 2019:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
County Auditor	\$ 203,057	\$ 201,599	\$ (1,458)
County treasurer	130,728	125,075	(5,653)
County assessor	185,530	185,099	(431)
Professional services	99,688	26,000	(73,688)
Data processing	74,144	66,000	(8,144)
GIS	10,625	5,000	(5,625)
Veterans service officer	22,989	22,300	(689)
Insurance	16,311	16,300	(11)
Public safety			
Sheriff	1,120,697	1,017,164	(103,533)
Coroner	13,006	11,450	(1,556)
Crime victim assistance	53,559	51,689	(1,870)
Emergency services	30,092	28,000	(2,092)
Sanitation			
Solid waste	173,336	167,954	(5,382)
Recycling	90,350	87,820	(2,530)
Human services			
Buildings and grounds	27,114	14,000	(13,114)
Culture and recreation			
Snowmobile and ski trails	54,354	50,000	(4,354)
Conservation of natural resources			
Cooperative extension	97,680	97,352	(328)
Environmental services	64,774	32,993	(31,781)
Capital outlay			
Highways and streets	36,920	-	(36,920)
Road and Bridge Special Revenue Fund			
Highways and streets			
Administration	445,238	388,200	(57,038)
Maintenance	983,107	915,100	(68,007)
Town roads	197,218	-	(197,218)
Other highways and streets	94,431	56,000	(38,431)

**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.

2019 Changes

*Changes in Actuarial Assumptions*

- The discount rate was changed from 3.30% to 3.80%.

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. 2019 Changes

a. Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

b. Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2017 to MP-2018.

2. 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.

3. 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.

4. 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.

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

IV. Public Employees Retirement Association (PERA)

Net Pension Liability

A. General Employees Fund

4. 2016 Changes in Actuarial Assumptions (Continued)

- 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.

5. 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 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 2035 and 2.50 percent per year thereafter.

B. Police and Fire Fund

1. 2019 Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

2. 2018 Changes in Actuarial Assumptions

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

3. 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.

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

V. Public Employees Retirement Association (PERA)

Net Pension Liability

B. Police and Fire Fund

3. 2017 Changes in Actuarial Assumptions (Continued)

- 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.
- 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.

4. 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.

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

III. Public Employees Retirement Association (PERA)

Net Pension Liability

B. Police and Fire Fund

4. 2016 Changes in Actuarial Assumptions (Continued)

- 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.

5. 2015 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.
- 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.

**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, 2019**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>CHILDREN'S INITIATIVE/FAMILY SERVICE COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 26,147	\$ 25,898	\$ 27,607	\$ 24,438
<b><u>Liabilities</u></b>				
Due to other governments	\$ 26,147	\$ 25,898	\$ 27,607	\$ 24,438
<b><u>FLEXIBLE SPENDING</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ (100)	\$ 6,055	\$ 2,990	\$ 2,965
Accounts receivable	100	-	100	-
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 6,055</b>	<b>\$ 3,090</b>	<b>\$ 2,965</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 6,055	\$ 3,090	\$ 2,965
<b><u>FORFEITED TAX</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 14,068	\$ 300	\$ 1,035	\$ 13,333
<b><u>Liabilities</u></b>				
Accounts payable	\$ 14,068	\$ 300	\$ 1,035	\$ 13,333
<b><u>INSURANCE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ (42,456)	\$ 688,485	\$ 694,835	\$ (48,806)
Accounts receivable	42,456	48,806	42,456	48,806
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 737,291</b>	<b>\$ 737,291</b>	<b>\$ -</b>

**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, 2019**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 737,291	\$ 737,291	\$ -

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

<b><u>Assets</u></b>				
Cash and pooled investments	\$ (25)	\$ 30,928	\$ 30,952	\$ (49)
Due from other governments	25	49	25	49
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 30,977</b>	<b>\$ 30,977</b>	<b>\$ -</b>

<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 30,977	\$ 30,977	\$ -

**NORTHWEST REGIONAL  
DEVELOPMENT COMMISSION**

<b><u>Assets</u></b>				
Cash and pooled investments	\$ (11)	\$ 14,748	\$ 14,760	\$ (23)
Due from other governments	11	23	11	23
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 14,771</b>	<b>\$ 14,771</b>	<b>\$ -</b>

<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 14,771	\$ 14,771	\$ -

**PREPAID TAXES**

<b><u>Assets</u></b>				
Cash and pooled investments	\$ 37,725	\$ 3,626	\$ 6	\$ 41,345

<b><u>Liabilities</u></b>				
Due to other governments	\$ 37,725	\$ 3,626	\$ 6	\$ 41,345



**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, 2019**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>SCHOOL DISTRICTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ (679)	\$ 1,845,190	\$ 1,849,012	\$ (4,501)
Due from other governments	679	4,501	679	4,501
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 1,849,691</b>	<b>\$ 1,849,691</b>	<b>\$ -</b>
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 1,849,691	\$ 1,849,691	\$ -
<b><u>STATE REVENUE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 9,991	\$ 1,289,069	\$ 1,284,836	\$ 14,224
<b><u>Liabilities</u></b>				
Due to other governments	\$ 9,991	\$ 1,289,069	\$ 1,284,836	\$ 14,224
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 47,756	\$ 8,268,494	\$ 8,178,035	\$ 138,215
<b><u>Liabilities</u></b>				
Due to other governments	\$ 47,756	\$ 8,268,494	\$ 8,178,035	\$ 138,215
<b><u>TOWNS AND CITIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ (28,966)	\$ 1,595,881	\$ 1,782,951	\$ (216,036)
Due from other governments	28,966	216,036	28,966	216,036
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 1,811,917</b>	<b>\$ 1,811,917</b>	<b>\$ -</b>
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 1,811,917	\$ 1,811,917	\$ -

**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, 2019**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
 <b><u>WATERSHED</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ (285)	\$ 380,209	\$ 380,504	\$ (580)
Due from other governments	285	580	285	580
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 380,789</b>	<b>\$ 380,789</b>	<b>\$ -</b>
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 380,789	\$ 380,789	\$ -
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 63,165	\$ 14,148,883	\$ 14,247,523	\$ (35,475)
Accounts receivable	42,556	48,806	42,556	48,806
Due from other governments	29,966	221,189	29,966	221,189
<b>Total Assets</b>	<b>\$ 135,687</b>	<b>\$ 14,418,878</b>	<b>\$ 14,320,045</b>	<b>\$ 234,520</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 14,068	\$ 774,623	\$ 772,393	\$ 16,298
Due to other governments	121,619	13,644,255	13,547,652	218,222
<b>Total Liabilities</b>	<b>\$ 135,687</b>	<b>\$ 14,418,878</b>	<b>\$ 14,320,045</b>	<b>\$ 234,520</b>

## **OTHER SCHEDULES**

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

**BALANCE SHEET - BY DITCH  
DITCH SPECIAL REVENUE FUND  
DECEMBER 31, 2019**

	Assets		
	Cash	Special Assessments Receivable Prior	Total Assets
<b>County Ditches</b>			
2	\$ 32,137	\$ 1	\$ 32,138
3	33,282	42	33,324
4	40,168	1	40,169
9	33,563	9	33,572
12	25,279	-	25,279
17	31,934	11	31,945
18-65	27,425	184	27,609
22	8,323	-	8,323
23	7,142	-	7,142
24	33,370	-	33,370
28	5,677	6	5,683
57	23,104	86	23,190
58	39,991	-	39,991
60	24,613	-	24,613
61	31,472	495	31,967
62	50,005	-	50,005
64	14,140	48	14,188
67	30,287	-	30,287
69	11,406	-	11,406
70	5,278	-	5,278
<b>Joint Ditches</b>			
1	60,199	19	60,218
3	40,009	-	40,009
11	6,345	-	6,345
13	19,382	-	19,382
15	29,490	6	29,496
31	11,401	-	11,401
60	62,405	-	62,405
64	35,762	-	35,762
66	31,172	-	31,172
71	19,334	-	19,334
<b>Watershed Ditches</b>			
1	-	-	-
3	-	-	-
7	-	-	-
Clearwater River Project	-	-	-
Lost River Improv Project	-	-	-
10	34,679	73	34,752
<b>Total</b>	<b>\$ 858,774</b>	<b>\$ 981</b>	<b>\$ 859,755</b>

Schedule 7

<u>Liabilities</u>				<u>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</u>
<u>Due to Other Funds</u>	<u>Total Liabilities</u>	<u>Deferred Inflows of Resources</u>	<u>Fund Balances Restricted</u>	
\$ -	\$ -	\$ 1	\$ 32,137	\$ 32,138
-	-	42	33,282	33,324
-	-	1	40,168	40,169
-	-	9	33,563	33,572
-	-	-	25,279	25,279
-	-	11	31,934	31,945
-	-	184	27,425	27,609
-	-	-	8,323	8,323
-	-	-	7,142	7,142
-	-	-	33,370	33,370
-	-	6	5,677	5,683
-	-	86	23,104	23,190
-	-	-	39,991	39,991
-	-	-	24,613	24,613
-	-	495	31,472	31,967
-	-	-	50,005	50,005
-	-	48	14,140	14,188
-	-	-	30,287	30,287
-	-	-	11,406	11,406
-	-	-	5,278	5,278
-	-	19	60,199	60,218
-	-	-	40,009	40,009
-	-	-	6,345	6,345
-	-	-	19,382	19,382
-	-	6	29,490	29,496
-	-	-	11,401	11,401
-	-	-	62,405	62,405
-	-	-	35,762	35,762
-	-	-	31,172	31,172
-	-	-	19,334	19,334
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
34,676	34,676	73	3	34,752
<u>\$ 34,676</u>	<u>\$ 34,676</u>	<u>\$ 981</u>	<u>\$ 824,098</u>	<u>\$ 859,755</u>

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

**Schedule 8**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2019**

**Shared Revenue**

**State**

County program aid	\$	419,698
County Aquatic Invasive Species Prevention Aid		6,803
Disparity reduction aid		31,044
Enhanced 911		73,587
Highway users tax		2,869,660
Market value credit		101,603
Out-of-home placement		2,471
PERA rate reimbursement		8,965
Police state aid		64,117
Riparian Protection Aid		75,528

**Total Shared Revenue** **\$ 3,653,476**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$	244,850
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**Grants**

**State**

**Minnesota Department/Board of**

Corrections	\$	1,300
Crime Victim Services		8,968
Human Services		223,399
Natural Resources		54,384
Peace Officer Standards and Training		7,953
Pollution Control Agency		68,910
Public Safety		28,995
Trial Courts		997
Veterans Affairs		7,500
Water and Soil Resources		90,315

**Total State** **\$ 492,721**

**Federal**

**Department of**

Agriculture	\$	67,500
Justice		22,828
Health and Human Services		425,112

**Total Federal** **\$ 515,440**

**Total Grants** **\$ 1,008,161**

**Total Intergovernmental Revenue** **\$ 4,906,487**

## **MANAGEMENT AND COMPLIANCE SECTION**



## Hoffman, Philipp, & Martell, 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, 2019, 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 19, 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 2019-001, 2019-002,



2019-003, 2019-004, 2019-005, 2019-006, 2019-007, and 2019-008 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 2019-009, 2019-010, and 2019-011. 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 2019-012. 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, & Martell, PLLC  
February 19, 2021

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

SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

**INTERNAL CONTROL**

**PREVIOUSLY REPORTED ITEMS NOT RESOLVED**

**Finding Number: 2019-001**

**Prior Years Audit Finding Numbers: 1996-004, 2018-001**

**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: 2019-002**

**Prior Years Audit Finding Numbers: 2007-001, 2018-002**

**Finding Title: Documenting and Monitoring Internal Controls**

**Criteria:** 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 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. 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: 2019-003**

**Prior Years Audit Finding Numbers: 2015-001, 2018-003**

**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: 2019-004**

**Prior Years Audit Finding Numbers: 2015-003, 2018-004**

**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 relies 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.*

**Finding Number:** 2019-005

**Prior Years Audit Finding Numbers:** 2015-005, 2018-005

**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.*

**Finding Number: 2019-006**

**Prior Years Audit Finding Numbers: 2015-006, 2018-006**

**Finding Title: Highway Department 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: 2019-007**

**Prior Years Audit Finding Numbers: 2015-010, 2018-007**

**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 less 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.*

#### **ITEM ARISING THIS YEAR**

**Finding Number: 2019-008**

**Finding Title: Highway Department Receivables Records**

**Criteria:** Receivable amounts reported in the Highway Department Annual Report should reflect the actual amounts due to Red Lake County from individuals and other governments. During the fiscal period, the receivables 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 cost accounting system is accurately reported and that County assets are adequately safeguarded.

**Condition:** The receivables subsidiary report and the report of receivables at year end as listed in the highway cost accounting system were not accurate. For the year ended December 31, 2019, receivables listed in the Annual Report did not match the subsidiary records from the Highway Cost Accounting System. Neither of those records matched the actual amounts actually billed and collected in the subsequent period.

**Context:** The Highway Department uses its cost accounting system to manage and track receivables. Typically, additions to the system are posted based on invoices prepared for services provided, and deletions are based on receipt of the payments.

**Effect:** Without adequate controls over receivables, 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 deletions of amounts reported for receivables have not been followed accurately.

**Recommendation:** The County should develop procedures related to receivables that include reconciliation to invoices for charges for services, and oversight to ensure regular balancing. The receivables records should be balanced at least monthly, and all support for year-end balances should be approved and maintained.

**County's Response:** *The Highway Department will make sure the receivables are correctly entered in the costing system and will continue to do monthly balances as soon as the Auditor's office provides their month end.*

## II. OTHER FINDINGS AND RECOMMENDATIONS

### A. MINNESOTA LEGAL COMPLIANCE

#### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

**Finding Number:** 2019-009

**Prior Years Audit Finding Numbers:** 2015-015, 2018-008

**Finding Title:** Publishing Requirements

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

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

- 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.

**Context:** Published summaries of the official proceedings of the County Board were reviewed; two were not published within the 30-day requirement.

**Effect:** Noncompliance with Minn. Stat. §§ 375.12.

**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.

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



**Finding Number: 2019-010**

**Prior Years Audit Findings Number: 2015-019, 2018-010**

**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.*

**ITEM ARISING THIS YEAR**

**Finding Number: 2019-011**

**Finding Title: Contract Compliance**

**Criteria:** Minnesota statutes contain requirements for the contracting processes used by local governments.

**Condition:** The County was not in compliance with the following State of Minnesota contracting and bid law requirements:

- **Affidavit of Publication:** Minn. Stat. § 375.21, requires that a contract for work or labor, or to purchase furniture, fixtures, or other property, or to construct or repair roads, bridges, or buildings shall be made by a County Board only after advertising for bids or proposals in a qualified legal newspaper of the County. For one of the eight contracts tested, the County did not advertise for the contract.
- **Contract in Writing:** Minn. Stat. § 375.21, requires that every contract shall be duly executed in writing. For four of the eight contracts tested, the County did not have a written contract.
- **Contract Language:** Minn. Stat. § 471.425, subd. 4a., requires that the contract between the government entity and a prime contractor contain language that requires the prime contractor to pay subcontractors within ten days of receipt of payment from the government entity or pay interest at the rate of 1.5 percent per month or any part of a month. For one of the eight contracts tested, the County did not include this specific language in the contract with the prime contractor.
- **Responsible Contractor Requirement:** Minn. Stat. § 16C.285 requires that the contractor submit a verification of compliance signed under oath by an owner or officer verifying compliance with the minimum criteria set forth in Minn. Stat. § 16C.285, subd. 3. For three of the eight contracts tested, the County did not have the required form from the contractor on file.
- **Contractors' Bonds for Public Work Requirement:** Minn. Stat. § 574.26 requires that the contractor provide performance and payment bonds with the local government before work on the contract begins. For one of the eight contracts tested the County did not obtain bonds.
- **Withholding Affidavit:** Minn. Stat. § 270C.66 requires that the any governmental subdivision shall not make final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor until satisfactory showing is made that the contractor has complied with the withholding affidavit (IC-134). For six of the eight contracts tested the County did not obtain the IC-134.

**Context:** The Highway Department administers many contracts in which it successfully fulfills all statutory contract requirements; however, five contracts were let for maintenance and not appropriately conducted in regards to contract requirements.

**Effect:** Noncompliance with Minn. Stat. § 375.21, § 471.425, § 16C.285, § 270C.66 and § 574.26.

**Cause:** Five different contracts was a different than the normal highway construction project and therefore was not specifically performed in the same manner.

**Recommendation:** We recommend the County abide by the existing procedures that include contracting requirements so those overseeing the contracting process will be informed of the statutory requirements to ensure compliance with applicable statutes for all future contracts.

**Red Lake County's Response:** *The highway department will take necessary measures to ensure all bidding and contracting is in compliance with Minnesota law and the Red Lake County procurement policy.*

## **B. MANAGEMENT PRACTICES**

### **PREVIOUSLY REPORTED ITEM NOT RESOLVED**

**Finding Number: 2019-012**

**Prior Years Audit Findings Number: 2015-022, 2019-011**

**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. ITEM RESOLVED THIS YEAR**

2018-009      Credit Card Use

# Red Lake County Auditors Office

Bob Schmitz, County  
Auditor

## CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2019

**Finding Number: 2019-001**  
**Prior Year Audit Finding Number: 2018-001**  
**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: 2019-002**  
**Prior Year Audit Finding Number: 2018-002**  
**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: 2019-003**  
**Prior Year Audit Finding Number: 2018-003**  
**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: 2019-004**  
**Prior Year Audit Finding Number: 2018-004**  
**Finding Title: Management and Audit Responsibilities**

**Name of Contact Person Responsible for Corrective Action:** Bob Schmitz, County Auditor; Erik Hove, 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: 2019-005**

**Prior Year Audit Finding Number: 2018-005**

**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: 2019-006**

**Prior Year Audit Finding Number: 2018-006**

**Finding Title: Highway Department Inventory Records**

**Name of Contact Person Responsible for Corrective Action:** Erik Hove, County Highway 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: 2019-007**

**Prior Year Audit Finding Number: 2018-007**

**Finding Title: Budgeting Procedures**

**Name of Contact Person Responsible for Corrective Action:** Bob Schmitz, County Auditor; Erik Hove, 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: 2019-008**

**Finding Title: Highway Department Receivables Records**

**Name of Contact Person Responsible for Corrective Action:** Erik Hove, County Highway Engineer, Nick Knott, County Treasurer; Bob Schmitz, County Auditor.

**Summary of Corrective Action:** The County will develop procedures related to receivables that include reconciliation to invoices for charges for services, and oversight to ensure regular balancing. The receivables records will be balanced at least monthly, and all support for year-end balances will be approved and maintained.

**Anticipated Completion Date:** December 31, 2021.

**Finding Number:** 2019-009

**Prior Year Audit Finding Number:** 2018-008

**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 minutes according to MN Statute requirements.

**Anticipated Completion Date:** Immediately.

**Finding Number:** 2019-010

**Prior Year Audit Finding Number:** 2018-010

**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:** 2019-011

**Finding Title:** Contract Compliance – Highway Department

**Name of Contact Person Responsible for Corrective Action:** Erik Hove, County Highway Engineer, Nick Knott, County Treasurer; Bob Schmitz, County Auditor.

**Summary of Corrective Action:** The County will abide by the existing procedures that include contracting requirements so those overseeing the contracting process will be informed of the statutory requirements to ensure compliance with applicable statutes for all future contracts.

**Anticipated Completion Date:** December 31, 2021.

**Finding Number:** 2019-012

**Prior Year Audit Finding Number:** 2019-011

**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, 2019

**Original Finding Number: 1996-004**  
**Prior Year Audit Finding Number: 2018-001**  
**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.

**Original Finding Number: 2007-001**  
**Prior Year Audit Finding Number: 2018-002**  
**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.

**Original Finding Number: 2015-001**  
**Prior Year Audit Finding Number: 2018-003**  
**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.

**Original Finding Number: 2015-003**  
**Prior Year Audit Finding Number: 2018-004**  
**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.

**Original Finding Number: 2015-005**  
**Prior Year Audit Finding Number: 2018-005**  
**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.

**Original Finding Number: 2015-006**  
**Prior Year Audit Finding Number: 2018-006**  
**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.

**Original Finding Number: 2015-010**  
**Prior Year Audit Finding Number: 2018-007**  
**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.

**Original Finding Number: 2015-015**  
**Prior Year Audit Finding Number: 2018-008**  
**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 published the budget summaries as required and will publish the minutes according to MN Statute requirements.

**Status:** Partially corrected. The 2018 and 2019 budgets were published according to MN Statute requirements.

**Original Finding Number: 2015-018**  
**Prior Year Audit Finding Number: 2018-009**  
**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 received approval from the County Board of Commissioners to continue use of a county credit card for his department.

**Status:** Fully corrected.

**Original Finding Number: 2015-019**  
**Prior Year Audit Finding Number: 2018-010**  
**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.

**Original Finding Number: 2015-022**  
**Prior Year Audit Finding Number: 2018-011**  
**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.