RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2017

Hoffman, Philipp, & Knutson, PLLC

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

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INTRODUCTORY SECTION

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

ORGANIZATION SCHEDULE
DECEMBER 31, 2017

Office	Name	Term Expires
Commissioners		
1st District	David K. Sorensen **	January 2019
2nd District	Ron Weiss	January 2021
3rd District	John B. Lerohl	January 2019
4th District	Anthony Flage *	January 2019
5th District	Charles Simpson	January 2021

**Chair*
***Vice-Chair*

Officers		
Elected:		
Attorney	Mike Lacoursier	January 2019
Auditor	Robert Schmitz	January 2019
Recorder	Joyce Paquin	January 2019
Sheriff	Mitch Bernstein	January 2019
Treasurer	Nick Knott	January 2019
Appointed:		
Assessor	Nancy Amberson	December 2020
Medical Examiner	Dr. Mary Ann Sens	June 2018
Highway Engineer	Courtney Kleven	May 2018
Veterans Service Officer	Kurtis Ellefson	December 2019
Environmental Services Director	Kurt Casavan	Indefinite

Social Services Board [i]		
Chair	Anthony Flage	January 2019
Vice-Chair	Charles Simpson	January 2021
Secretary	John B. Lerohl	January 2019
Member	Patricia Purath [1]	July 2018
Member	Gayle Flateland [1]	July 2017
Member	David Sorenson	January 2019
Member	Ron Weiss	January 2021
Director	Kristi Nelson	Indefinite

[i] In 2017, the Social Services Board became a five-commissioner board following the resignations of Patricia Purath and Gayle Flateland.

[1] Resigned July 2017 – did not replace two lay members (Patricia Purath and Gayle Flateland) of the Social Services Board.

FINANCIAL SECTION

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

Hoffman, Philipp, & Knutson, PLLC

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Red Lake County

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Red Lake County, Minnesota, as of and for the year ended December 31, 2017, 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, 2017, 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 November 29, 2019, on our consideration of Red Lake County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Hoffman, Philipp, & Knutson, PLLC
November 29, 2019

PO Box 367
Red Lake Falls, MN 56750
218/253-2598
FAX: 218/253-4894

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, 2017. 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 $46,918,794, of which $36,194,905 is the net investment in capital assets, $10,068,254 is restricted for specific purposes, and $655,635 is unrestricted. The total net position of governmental activities increased by $806,944 for the year ended December 31, 2017. This is attributed mainly due to the decrease in net pension liability.

At the close of 2017, the County's governmental funds reported combined ending fund balances of $5,131,581, a decrease of $370,072 from the prior year. Of the total fund balance amount, $341,038 is non-spendable, $1,069,553 is legally or contractually restricted, $223,672 is formally committed for specific purposes, and $3,497,318 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 combining statements, a ditch balance sheet and a schedule of intergovernmental revenue.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's assets exceeded liabilities by $46,918,794 at the close of 2017. The largest portion of the County's net position (approximately 77 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 22 percent of the County's net position is restricted and 1 percent of the County's net position is unrestricted. The unrestricted net position amount of $615,806 as of December 31, 2017, may be used to meet the County's ongoing obligations to citizens.

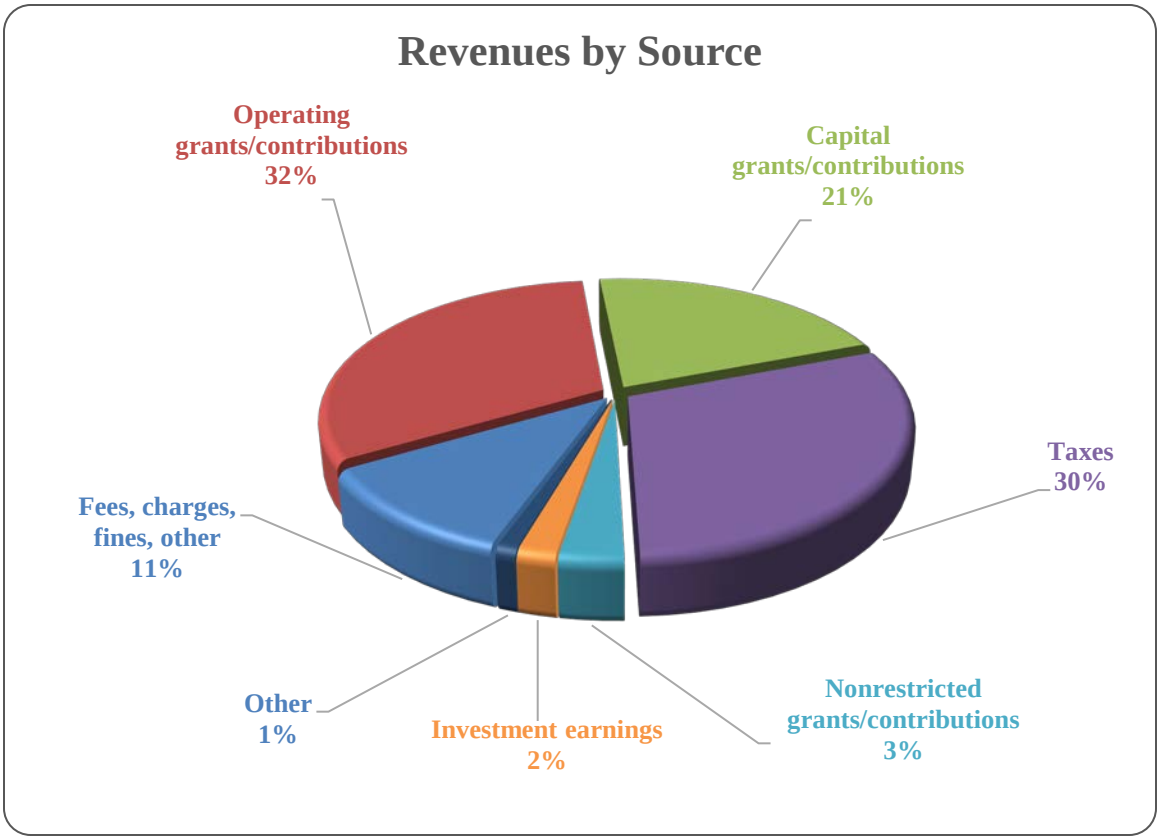
The County's overall financial position increased from last year. Total assets increased by $1,337,238 from the prior year, deferred outflows of resources related to pensions decreased by $380,063, total liabilities decreased by $1,440,172 from the prior year, and deferred inflows of resources related to pensions increased $1,590,403. This resulted in an increased net position of $806,944 from the prior year.

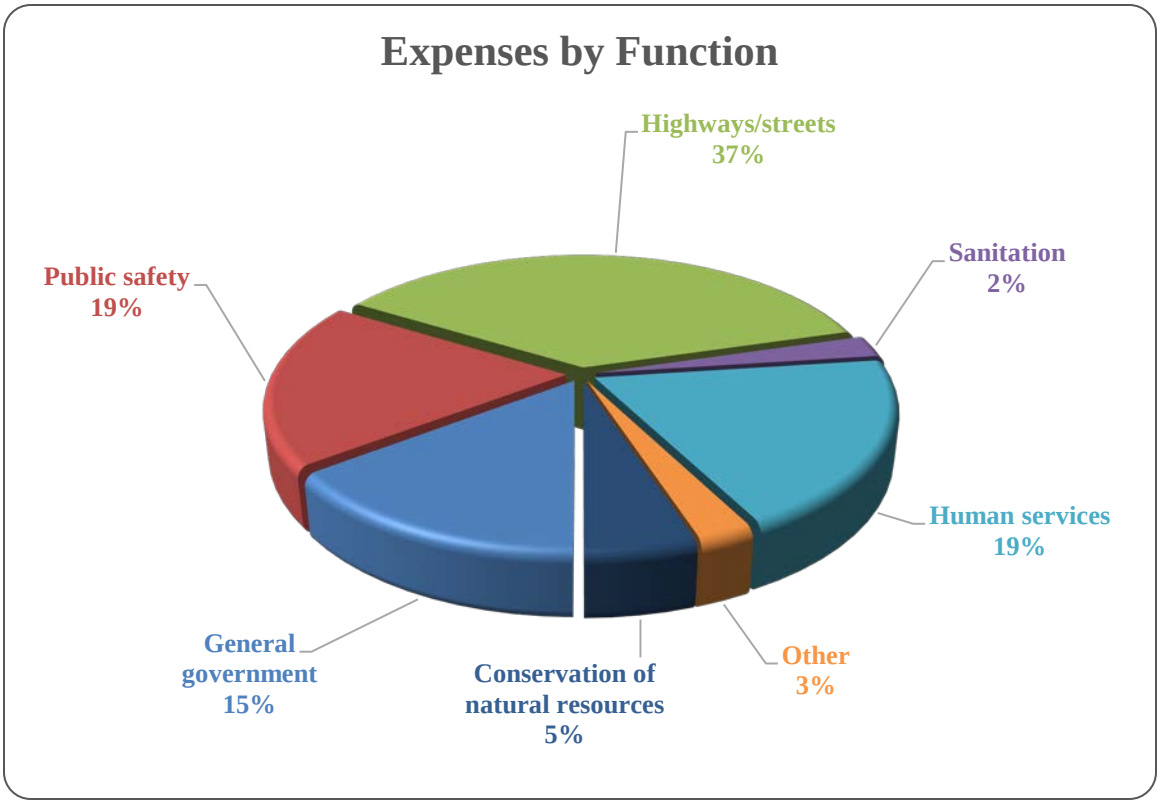
NET POSITION

	Governmental Activities	
	2017	2016
Current and other assets	$ 14,457,557	$ 12,374,619
Special assessments - noncurrent	28,315	37,754
Capital assets	36,194,905	36,931,166
Total assets	$ 50,680,777	$ 49,343,539
Deferred outflows - pensions	$ 2,114,959	$ 2,495,022
Other liabilities	$ 526,864	$ 195,137
Long-term liablities outstanding	3,260,463	5,032,362
Total liabilities	$ 3,787,327	$ 5,227,499
Deferred inflows - pensions	$ 2,089,615	$ 499,212
Net position		
Net investment in capital assets	$ 36,194,905	$ 36,931,166
Restricted	10,068,254	7,562,383
Unrestricted	655,635	1,618,301
Total net position	$ 46,918,794	$ 46,111,850

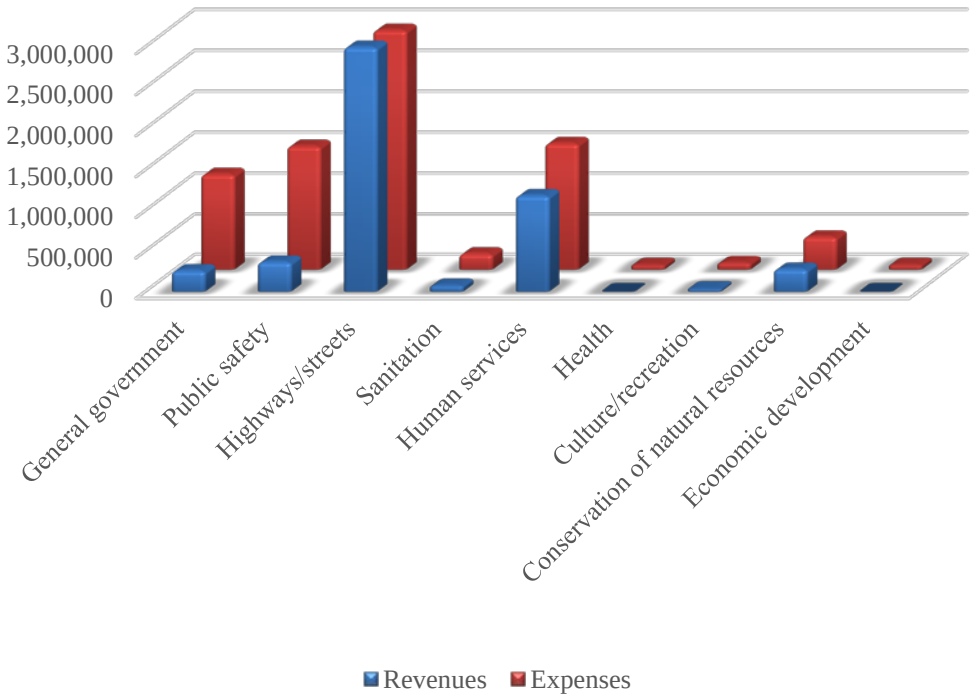
CHANGES IN NET POSITION

	Governmental Activities	
	2017	2016
Revenues		
Program Revenues		
Fees, charges, fines and other	$ 985,783	$ 987,011
Operating grants and contributions	2,837,225	2,515,228
Capital grants and contributions	1,844,934	2,777,292
General Revenues		
Taxes	2,705,909	2,499,334
Grants and contributions not restricted to specific programs	281,172	349,043
Payments in lieu of taxes	13,225	10,043
Investment earnings	168,133	76,238
Insurance dividends	-	44,314
Miscellaneous	74,179	-
Total revenues	$ 8,910,560	$ 9,258,503
Expenses		
General government	$ 1,176,101	$ 1,233,118
Public safety	1,518,729	1,633,614
Highways and streets	2,934,927	2,612,222
Sanitation	197,885	127,112
Human services	1,552,299	1,595,808
Health	59,388	60,388
Culture and recreation	85,534	87,146
Conservation of natural resources	406,318	442,428
Economic development	59,729	78,656
Total expenses	$ 7,990,910	$ 7,870,492
Increase (decrease)	$ 919,650	$ 1,388,011
Net position, January 1, as previously reported	$ 46,111,850	$ 47,554,029
Prior period adjustment	(112,706)	(2,830,190)
Net position, January 1, as restated	45,999,144	44,723,839
Net position, December 31	$ 46,918,794	$ 46,111,850

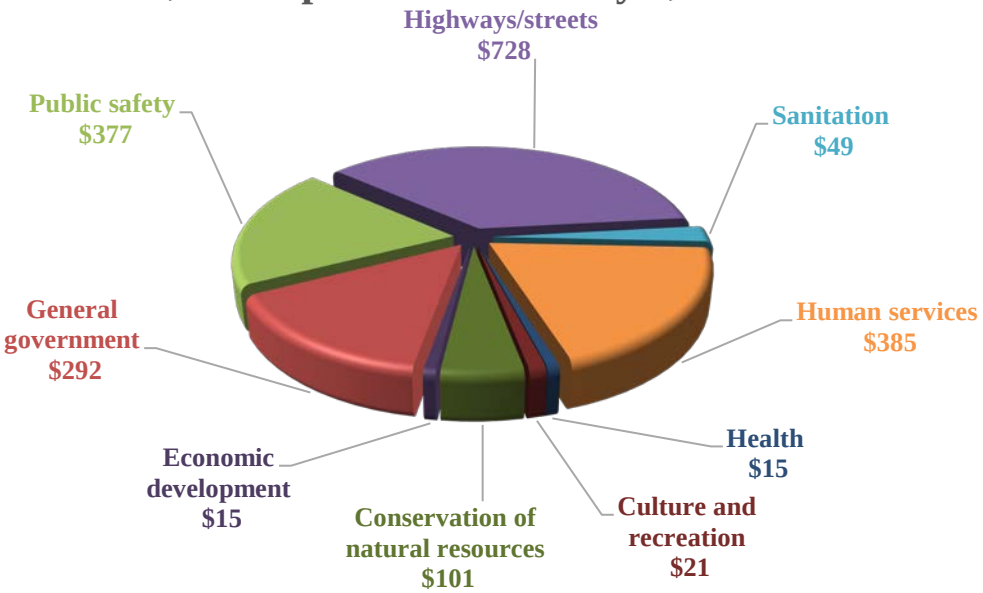

Revenues by Source
Operating grants/contributions 32%
Capital grants/contributions 21%
Taxes 30%
Fees, charges, fines, other 11%
Other 1%
Investment earnings 2%
Nonrestricted grants/contributions 3%


Expenses by Function
Highways/streets 37%
Sanitation 2%
Public safety 19%
Human services 19%
General government 15%
Conservation of natural resources 5%
Other 3%

Program Revenues & Expenses



Expenditures Per Capita
4,030 Population as of July 1, 2017



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

At the end of 2017, the County's governmental funds reported combined ending fund balances of $5,131,581. Of this amount, approximately 7 percent constitutes non-spendable fund balance, 21 percent constitutes legally or contractually restricted fund balance, 4 percent constitutes formally committed fund balance, and 68 percent constitutes specifically assigned fund balance.

The General Fund is the operating fund of the County. At the end of the current fiscal year, the General Fund's total fund balance was $1,998,029. The General Fund had no non-spendable fund balance or committed fund balance. The restricted fund balance was $366,862 and assigned fund balance was $1,631,167. 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 2017. Unrestricted fund balance represents 48 percent of total General Fund expenditures, while total fund balance represents 61 percent of that same amount.

In 2017, the fund balance amount in the General Fund decreased by $162,974 as a result of increased solid waste and public safety expenditures.

The fund balance of the Road and Bridge Special Revenue Fund decreased $446,517 in 2017 due to unbudgeted capital outlay.

The fund balance of the Social Services Special Revenue Fund increased $78,599 from the prior year due to positive budgetary performance.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the original budget as approved for 2017.

Actual revenues were more than overall final budgeted revenues by $229,689, with the largest variance in intergovernmental revenue. Actual expenditures were less than overall final budgeted expenditures by $21,816.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2017, amounted to $36,194,905 (net of accumulated depreciation). The total decrease in the County's investment in capital assets for the current fiscal year was two percent, due to depreciation.

	Governmental Activities	
	2017	2016
Land	$ 997,274	$ 997,274
Construction in progress	49,390	-
Infrastructure	33,830,436	34,507,688
Buildings and improvements	197,522	219,048
Machinery and equipment	1,120,283	1,207,156
Total capital assets	$ 36,194,905	$ 36,931,166

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 7 percent as of December, 2017. This is higher than the statewide rate of 3.3 percent and the national average rate of 3.9 percent.

- Red Lake County's population according to the United States Census Bureau at July 1, 2017 was 4,030, a decrease of 59 since 2010. This ranks Red Lake County 85th of 87 in the State of Minnesota.

- On December 27, 2017, Red Lake County set its 2018 revenue and expenditure budgets.

- The County is concerned about unfunded mandates, rising employee health insurance and benefit costs, and the reduction in County Program Aid, while attempting to be as fiscally conservative as possible.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
DECEMBER 31, 2017

		Governmental Activities
Assets		
Cash and pooled investments	$	4,878,374
Cash with fiscal agent		3,057
Investments		815,089
Taxes receivable - prior		51,714
Special assessments receivable - current		89,500
Special assessments receivable - prior		2,723
Accounts receivable		7,608
Accrued interest receivable		11,002
Due from other governments		8,257,452
Inventories		341,038
Special assessments - noncurrent		28,315
Capital assets		
Non-depreciable		1,046,664
Depreciable - net of accumulated depreciation		35,148,241
Total Assets	**$**	**50,680,777**
Deferred Outflows of Resources		
Related to pensions	$	2,114,959
Liabilities		
Current		
Accounts payable	$	90,694
Salaries payable		94,886
Contracts payable		241,908
Due to other governments		3,341
Compensated absences		96,035
Noncurrent		
Compensated absences		71,713
Other Post Employment Benefits		343,887
Net pension liability		2,844,863
Total Liabilities	**$**	**3,787,327**
Deferred Inflows of Resources		
Related to pensions	$	2,089,615
Net Position		
Net investment in capital assets	$	36,194,905
Amounts restricted for		
General government		52,318
Public safety		4,160
Highways and streets		9,022,761
Conservation of natural resources		836,896
Economic development		152,119
Unrestricted amounts		655,635
Total Net Position	**$**	**46,918,794**

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

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

		Program Revenues			Net (Expense)
	Expenses	Fees, Charges, Fines and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
Functions/Programs					
Governmental activities					
General government	$ 1,176,101	$ 195,487	$ 64,895	$ -	$ (915,719)
Public safety	1,518,729	97,087	270,755	-	(1,150,887)
Highways and streets	2,934,927	203,602	1,422,282	1,833,222	524,179
Sanitation	197,885	-	76,650	-	(121,235)
Human services	1,552,299	391,183	796,703	-	(364,413)
Health	59,388	-	-	-	(59,388)
Culture and recreation	85,534	-	35,945	-	(49,589)
Conservation of natural resources	406,318	98,382	169,995	11,712	(126,229)
Economic development	59,729	42	-	-	(59,687)
Total governmental activities	**$ 7,990,910**	**$ 985,783**	**$ 2,837,225**	**$ 1,844,934**	**$ (2,322,968)**
General revenues					
Property taxes					$ 2,705,909
Grants and contributions not restricted to specific programs					281,172
Payments in lieu of taxes					13,225
Investment earnings					168,133
Miscellaneous					74,179
Total general revenues					**$ 3,242,618**
Change in net position					**$ 919,650**
Net position - January 1					**$ 46,111,850**
Prior period adjustment					(112,706)
Net position - January 1, as restated					**$ 45,999,144**
Net position - December 31					**$ 46,918,794**

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

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT 3

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	General Fund	Road and Bridge Special Revenue Fund	Social Services Special Revenue Fund	Nonmajor Ditch Special Revenue Fund	Total Governmental Funds
Assets					
Cash and pooled investments	$ 1,929,713	$ 852,500	$ 1,381,808	$ 714,353	$ 4,878,374
Cash with fiscal agent	3,057	-	-	-	3,057
Investments	73,665	741,424	-	-	815,089
Taxes receivable - prior	33,884	10,322	7,508	-	51,714
Special assessments receivable - current	-	-	-	89,500	89,500
Special assessments receivable - prior	638	-	-	2,085	2,723
Accounts receivable	1,728	5,880	-	-	7,608
Accrued interest receivable	9,934	1,068	-	-	11,002
Due from other funds	11,662	-	-	-	11,662
Due from other governments	21,984	8,100,392	135,076	-	8,257,452
Inventories	-	341,038	-	-	341,038
Special assessments - noncurrent	28,315	-	-	-	28,315
Total Assets	**$ 2,114,580**	**$ 10,052,624**	**$ 1,524,392**	**$ 805,938**	**$ 14,497,534**
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities					
Accounts payable	$ 9,806	$ 26,774	$ 54,114	$ -	$ 90,694
Salaries payable	45,983	24,473	24,430	-	94,886
Due to other funds	-	-	-	11,662	11,662
Due to other governments	3,341	-	-	-	3,341
Contracts payable	-	241,908	-	-	241,908
Total Liabilities	**$ 59,130**	**$ 293,155**	**$ 78,544**	**$ 11,662**	**$ 442,491**
Deferred Inflows of Resources					
Taxes	$ 28,468	$ 8,672	$ 6,308	$ -	$ 43,448
Special assessments	28,953	-	-	91,585	120,538
County State Aid Highway Allotment	-	8,759,476	-	-	8,759,476
Total Deferred Inflows of Resources	**$ 57,421**	**$ 8,768,148**	**$ 6,308**	**$ 91,585**	**$ 8,923,462**
Fund Balances					
Non-spendable	$ -	$ 341,038	$ -	$ -	$ 341,038
Restricted	366,862	-	-	702,691	1,069,553
Committed	-	223,672	-	-	223,672
Assigned	1,631,167	426,611	1,439,540	-	3,497,318
Total Fund Balances	**$ 1,998,029**	**$ 991,321**	**$ 1,439,540**	**$ 702,691**	**$ 5,131,581**
Total Liabilities, Deferred Inflows of Resources and Fund Balances	**$ 2,114,580**	**$ 10,052,624**	**$ 1,524,392**	**$ 805,938**	**$ 14,497,534**

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

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, 2017

Fund balances - total governmental funds (Exhibit 3)		**$ 5,131,581**
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		36,194,905
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		8,923,462
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Compensated absences payable	$ (167,748)	
Other post employment benefits	(343,887)	(511,635)
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:		
Deferred outflows of resources related to pensions	$ 2,114,959	
Deferred inflows of resources related to pensions	(2,089,615)	
Net pension liability	(2,844,863)	(2,819,519)
Net position of governmental activities (Exhibit 1)		**$ 46,918,794**

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

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, 2017

	General Fund	Road and Bridge Special Revenue Fund	Social Services Special Revenue Fund	Nonmajor Ditch Special Revenue Fund	Total Governmental Funds
Revenues					
Taxes	$ 1,794,905	$ 523,509	$ 373,829	$ -	$ 2,692,243
Special assessments	11,662	-	-	90,517	102,179
Intergovernmental	740,350	1,105,962	833,852	-	2,680,164
Charges for services	205,553	167,436	212,446	-	585,435
Investment earnings	153,750	14,383	-	-	168,133
Miscellaneous	221,781	36,166	178,737	10,387	447,071
Total Revenues	**$ 3,128,001**	**$ 1,847,456**	**$ 1,598,864**	**$ 100,904**	**$ 6,675,225**
Expenditures					
Current					
General government	$ 1,137,402	$ -	$ -	$ -	$ 1,137,402
Public safety	1,345,607	-	-	-	1,345,607
Highways and streets	-	1,900,484	-	-	1,900,484
Sanitation	186,381	-	-	-	186,381
Human services	17,511	-	1,520,265	-	1,537,776
Health	59,388	-	-	-	59,388
Culture and recreation	85,534	-	-	-	85,534
Conservation of natural resources	350,593	-	-	50,460	401,053
Economic development	59,729	-	-	-	59,729
Capital outlay					
Public safety	48,830	-	-	-	48,830
Highways and streets	-	393,489	-	-	393,489
Total Expenditures	**$ 3,290,975**	**$ 2,293,973**	**$ 1,520,265**	**$ 50,460**	**$ 7,155,673**
Net Change in Fund Balance	**$ (162,974)**	**$ (446,517)**	**$ 78,599**	**$ 50,444**	**$ (480,448)**
Fund Balance - January 1	**2,160,953**	**1,327,462**	**1,360,941**	**652,297**	**5,501,653**
Increase (decrease) in inventories	**-**	**110,376**	**-**	**-**	**110,376**
Fund Balance - December 31	**$ 1,997,979**	**$ 991,321**	**$ 1,439,540**	**$ 702,741**	**$ 5,131,581**

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

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, 2017

Net change in fund balances - total governmental funds (Exhibit 5)			**$ (480,448)**
Amounts reported for governmental activities in the Statement of Activities are different because:			
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			
Expenditures for general capital assets and infrastructure	$ 442,319		
Current year depreciation	(1,171,167)		
Net book value of disposed assets	(7,413)		(736,261)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.			
Change in deferred inflows of resources			2,207,879
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.			
Change in			
Inventories	$ 110,376		
Compensated absences payable	79,404		
Other post-employment benefits	(52,662)		137,118
Net pension liability does not represent the impending use of current resources. Therefore, the change in the liabilty and the related deferrals are not reported in the governmental funds.			(208,638)
Change in net position of governmental activities (Exhibit 2)			**$ 919,650**

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

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2017

	Agency (Statement 3)
Assets	
Cash and pooled investments	**$ 158,748**
Liabilities	
Accounts payable	$ 582
Due to other governments	158,166
Total Liabilities	**$ 158,748**

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

I. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

I. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for and reports all financial resources of the general government not accounted for in another fund.

The Road and Bridge Special Revenue Fund is used to account for and report revenues and expenditures of the County Highway Department which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways. Financing is provided by annual tax levy, intergovernmental revenues, and charges for services restricted, committed and assigned for various highways and streets purposes.

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

Additionally, the County reports the following fund types:

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

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

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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, 2017, 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 2017 were $79,213. Total investment earnings for 2017 were $168,133.

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 2017 and deferred special assessments collectible in 2018 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.

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extended the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. During the current period, the County did not have any capitalized interest.

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

Assets	Years
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 and proprietary funds Statement of Net Position in relation to the activity of the pension funds in which County employees participate.

In addition to liabilities, the Statement of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time.

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 and proprietary funds Statement of Net Position in relation to the activity of the pension funds in which County employees participate. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available.

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. 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.

8. 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. 45, at January 1, 2017. 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.

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, 2017.

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, 2017.

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. Restatement of Net Position

During the year ended December 31, 2017, the County changed its other post-employment benefit calculation from the alternative method to the service of an actuary. Beginning net position has been restated to reflect this change.

Net Position - January 1, 2017, as previously reported	$46,111,850
Prior period adjustment for other post employment benefits	(112,706)
Net position - January 1, 2017, as restated	$45,999,144

B. Land Management

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

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, 2017, are as follows:

Governmental Funds		
Cash and pooled investments	$	4,878,374
Cash with fiscal agent		3,057
Investments		815,089
Fiduciary Funds		
Cash and pooled investments		158,748
Total cash and investments	$	5,855,268
Cash on hand	$	750
Checking accounts		161,664
Cash with fiscal agent		3,057
Savings accounts		875,244
Investments		4,814,553
Total deposits and investments	$	5,855,268

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, 2017, the County's deposits were not exposed to custodial credit risk.

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.

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

Interest Rate Risk (Continued)

At December 31, 2017, the County had the following investments and maturities:

	Fair Value	Less Than 1 Year	1-5 Years	5+ Years
Government Bonds	$ 938,900	$ -	$ 639,457	$ 299,443
Negotiable Certificates of Deposit	1,281,205	245,698	1,035,507	-
Mutual Funds	2,091,047	2,091,047	-	-
Minnesota Municipal Money Market Funds	12,520	12,520	-	-
Cash/Money Market Funds	490,881	490,881	-	-
Total Investments	$ 4,814,553	$ 2,840,146	$ 1,674,964	$ 299,443

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, 2017, is as follows:

	S & P Rating	Fair Value
Government Bonds	AAA	$ 938,900
Negotiable Certificates of Deposit	N/A	1,281,205
Mutual Funds	N/R	2,091,047
Minnesota Municipal Money Market Funds	N/A	12,520
Cash/Money Market Funds	N/A	490,881
		$ 4,814,553

N/R – not rated
N/A – not applicable

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, 2017, the County had $2,520,994 invested with Wells Fargo Advisors which may be subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer, excluding U.S. guaranteed investments, investment pools, and mutual funds. Red Lake County's policy is to minimize concentration of credit risk. At December 31, 2017, the County had no investment with any one broker in excess of 5 percent which would be 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.

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

Fair Value Measurement (Continued)

At December 31, 2017, the County had the following recurring fair value measurements:

	December 31, 2017	Assets (Level 1)	Inputs (Level 2)
Investments by fair value level			
Government bonds	$ 938,900	$ 938,900	$ -
Mutual funds	2,091,047	-	2,091,047
Money market funds	503,401	503,401	-
Negotiable certificates of deposit	1,281,205	-	1,281,205
Total Investments	$ 4,814,553	$ 1,442,301	$ 3,372,252

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

2. Receivables

Receivables as of December 31, 2017, 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	$ 51,714	$ -
Special assessments	120,538	28,315
Accounts	7,608	-
Accrued interest	11,002	-
Due from other governments	8,257,452	-
Total	$ 8,448,314	$ 28,315

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	$ 997,274	$ -	$ -	$ 997,274
Construction in progress	-	49,390	-	49,390
Total capital assets not depreciated	$ 997,274	$ 49,390	$ -	$ 1,046,664
Capital assets being depreciated				
Infrastructure	$ 50,442,998	$ 273,114	$ -	$ 50,716,112
Buildings and improvements	1,326,653	-	-	1,326,653
Machinery and equipment	3,258,083	119,815	59,683	3,318,215
Total capital assets being depreciated	$ 55,027,734	$ 392,929	$ 59,683	$ 55,360,980
Less: accumulated depreciation for				
Infrastructure	$ 15,935,310	$ 950,366	$ -	$ 16,885,676
Buildings and improvements	1,107,605	21,526	-	1,129,131
Machinery and equipment	2,050,927	199,275	52,270	2,197,932
Total accumulated depreciation	$ 19,093,842	$ 1,171,167	$ 52,270	$ 20,212,739
Total capital assets, depreciated, net	$ 35,933,892	$ (778,238)	$ 7,413	$ 35,148,241
Governmental Activities Capital Assets, Net	$ 36,931,166	$ (728,848)	$ 7,413	$ 36,194,905

Depreciation Expense

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

General government	$ 7,981
Public safety	66,375
Highways and streets, including depreciation of infrastructure assets	1,075,987
Human services	14,737
Sanitation	6,087
Total Depreciation Expense	$ 1,171,167

III. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2017, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	
General Fund	Ditch Special Revenue Fund	$ 11,662	Ditch 10 collections

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. All of the outstanding balances are expected to be paid during the subsequent year.

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2017 were as follows:

Accounts	$ 90,694
Salaries	94,886
Contracts	241,908
Due to other governments	3,341
Total Payables	$ 430,829

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

2. Compensated Absences

Under the County's personnel policies and union contracts, employees are granted vacation in varying amounts based on their length of service and hours worked. Maximum vacation earnings are 192 hours for 0-4 year anniversary dates, 288 hours for 5-9 year anniversary dates, and 384 hours after the 9th anniversary date. Maximum sick leave earnings are 720 hours. For each month an employee maintains their maximum sick leave accumulation, an additional half day of vacation shall be added to their vacation accrual. At severance, employees may receive half of their sick leave accumulation with a maximum pay out of 360 hours. Employees are also able to accrue a sick bank which is their accrual or sick leave over 720 hours. This sick bank may only be used once the entire sick leave balance is exhausted.

Unused compensatory time, accumulated vacation and vested sick leave are paid to employees upon termination. After 15 years of continuous service with the County, eligible employees will receive a percentage of their accumulated sick leave of up to a maximum of 95.63 days upon resignation or retirement in good standing as severance pay. Unvested sick leave, approximately $102,845 at December 31, 2017, is available to employees in the event of illness-related absences and is not paid to them at termination.

III. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

3. Long-Term Debt and Liabilities

Red Lake County has no long-term debt at December 31, 2017.

Long-term liability for activity for the governmental activities for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
OPEB Liability	$ 178,519	$ 165,368	$ -	$ 343,887	$ -
Compensated Absences	247,152	93,096	172,500	167,748	96,035
Net Pension Liability	4,606,691	-	1,761,828	2,844,863	-
	$ 5,032,362	$ 258,464	$ 1,934,328	$ 3,356,498	$ 96,035

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, 2017, are summarized below by fund:

	Taxes	Special Assessments	CSAH	Total
Governmental funds				
General	$ 28,468	$ 28,953	$ -	$ 57,421
Road & Bridge	8,672	-	8,759,476	8,768,148
Social Services	6,308	-	-	6,308
Ditch	-	91,585	-	91,585
Total	$ 43,448	$ 120,538	$ 8,759,476	$ 8,923,462

III. Detailed Notes on All Funds (Continued)

D. Fund Balances

Fund balances at year-end December 31, 2017, were as follows:

	General Fund	Special Revenue Funds: Road and Bridge	Special Revenue Funds: Social Services	Nonmajor: Ditch Special Revenue Fund	Total Governmental Funds
Nonspendable					
Inventories	$ -	$ 341,038	$ -	$ -	$ 341,038
Restricted for					
Attorney's forfeiture	$ 334	$ -	$ -	$ -	334
Conservation of natural resources	-	-	-	702,691	-
Gravel pit restoration	59,150	-	-	-	59,150
Housing rehabilitation	3,057	-	-	-	3,057
Landslide acquisition	149,062	-	-	-	149,062
Recorder's equipment	51,984	-	-	-	51,984
Recorder's technology	24,060	-	-	-	24,060
Riparian Protection Aid	75,055	-	-	-	75,055
Sheriff's contingent fund	4,150	-	-	-	4,150
Sheriff's forfeited property	10	-	-	-	10
Total restricted	$ 366,862	$ -	$ -	$ 702,691	$ 366,862
Committed to					
Contracts	$ -	$ 223,672	$ -	$ -	$ 223,672
Assigned to					
General government	$ 165,872	$ -	$ -	$ -	$ 165,872
Public safety	1,059,134	-	-	-	1,059,134
Highways and streets	-	426,611	-	-	426,611
Social services	-	-	1,439,540	-	1,439,540
Sanitation	406,161	-	-	-	406,161
Total assigned	$ 1,631,167	$ 426,611	$ 1,439,540	$ -	$ 3,497,318
Total Fund Balances	$ 1,998,029	$ 991,321	$ 1,439,540	$ 702,691	$ 5,131,581

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.

B. Funding Policy

The contribution requirements of the plan and the County are established and may be amended by the Red Lake County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This post-employment benefit is funded on a pay-as-you-go basis usually paying retiree benefits out of the General Fund. For 2017, there were approximately 64 participants in the plan. The implicit rate subsidy amount was determined by an actuarial study to be $7,263 for 2015.

C. Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	$ 79,255
Interest on net OPEB obligation	11,649
Adjustment to ARC	(16,515)
Annual OPEB cost	$ 74,389
Contributions made during the year	(21,727)
Increase in net OPEB obligation	$ 52,662
Net OPEB Obligation - Beginning of Year	291,225
Net OPEB Obligation - End of Year	$ 343,887

The County's annual OPEB cost for the year ended December 31, 2017, was $74,389. The percentage of OPEB cost contributed to the plan was 29.2 percent, and the net OPEB obligation as of December 31, 2017, was $343,887.

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

D. Fund Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial accrued liability for benefits was $424,738, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $424,738. The covered payroll (annual payroll of active employees covered by the plan) was $2,240,239, and the ratio of the UAAL to the covered payroll was 16.6 percent.

E. Actuarial Methods and Assumptions

Actuarial valuations of 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 health care cost trend. 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 - Other Postemployment Benefits, 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.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques 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, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.00 percent investment rate of return (net of investment expenses), which is Red Lake County's implicit rate of return on the General Fund. The annual health care cost trend is 7.25 percent initially, reduced by decrements to an ultimate rate of 5.00 percent over 9 years. Both rates included a 2.50 percent inflation assumption. The UAAL is being amortized as a level dollar amount over 30 years on a closed basis. The remaining amortization period at December 31, 2015 was 30 years.

V. Defined Benefit Pension Plans

A. Plan Description

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

1. General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

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

2. Public Employees Police and Fire Plan (Police and Fire Plan (accounted for in the 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.

B. Benefits Provided

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

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

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

V. Defined Benefit Pension Plans

B. Benefits Provided (Continued)

1. General Employees Retirement 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 and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For 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.

2. Public Employees 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. For Police and Fire Plan 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.

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 Retirement Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2017. Red Lake County was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2017. Red Lake County's contributions to the General Employees Fund for the year ended December 31, 2017, were $168,019. Red Lake County's contributions were equal to the required contributions as set by state statute.

V. Defined Benefit Pension Plans

C. Contributions (Continued)

2. Public Employees Police and Fire Fund Contributions

Plan members were required to contribute 10.8 percent of their annual covered salary in calendar year 2017. Red Lake County was required to contribute 16.20 percent of pay for members in calendar year 2017. Red Lake County's contributions to the Police and Fire Fund for the year ended December 31, 2017 were $84,017. Red Lake County's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. General Employees Retirement Fund Pension Costs

At December 31, 2017, Red Lake County reported a liability of $2,183,305 for its proportionate share of the General Employees Fund's net pension liability. Red Lake County's net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 2017. The State of Minnesota considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with Red Lake County totaled $27,456. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the date. Red Lake County's proportion share was .0342 percent which was an increase of .002 percent from its proportion measured as of June 30, 2016.

There were no provision changes during the measurement period.

For the year ended December 31, 2017, Red Lake County recognized pension expense of $93,615 for its proportionate share of the General Employees Plan's pension expense. In addition, Red Lake County recognized an additional $793 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6 million to the General Employees Fund.

At December 31, 2017, 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:

V. Defined Benefit Pension Plans

D. Pension Costs

1. General Employees Retirement Fund Pension Costs (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 71,955	$ 139,026
Changes in actuarial assumptions	360,356	218,877
Difference between projected and actual investment earnings	380,841	370,709
Changes in proportion	30,318	45,800
Contributions paid to PERA subsequent to the measurement date	84,304	-
Total	$ 927,774	$ 774,412

The $84,304 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2018	$ 62,403
2019	137,207
2020	(37,874)
2021	(92,678)
2022	-

2. Public Employees Police and Fire Fund Pension Costs

At December 31, 2017, Red Lake County reported a liability of $661,558 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Red Lake County's proportion of the net pension liability was based on Red Lake County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2017, relative to the total employer contributions received from all PERA's participating employers. Red Lake County's proportion share was .003 percent which was a decrease of .0430 percent from its proportion measured as of June 30, 2016.

There were no provision changes during the measurement period.

V. Defined Benefit Pension Plans

D. Pension Costs

2. Public Employees Police and Fire Fund Pension Costs (Continued)

For the year ended December 31, 2017, Red Lake County recognized pension expense of $64,977 for its proportionate share of the Police and Fire Plan's pension expense. Red Lake County also recognized $4,410 for the year ended December 31, 2017 as pension expense (and grant revenue) 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 to begin contributions of $9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 15,228	$ 166,032
Changes in actuarial assumptions	812,774	939,249
Difference between projected and actual investment earnings	205,598	209,922
Changes in proportion	111,130	-
Contributions paid to PERA subsequent to the measurement date	42,455	-
Total	$ 1,187,185	$ 1,315,203

The $42,455 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2018	$ 19,952
2019	19,950
2020	(2,816)
2021	(42,819)
2022	(164,740)

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation determined using the following actuarial assumptions:

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

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 were based on RP-2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan for males and females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1 percent per year for all future years for the General Employees Plan and Police and Fire Plan.

Actuarial assumptions used in the June 30, 2017 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 2015. The experience study for Police and fire Plan was for the period July 1, 2004 through June 30, 2009.

The following changes in actuarial assumptions occurred in 2017:

General Employees Retirement Fund

- 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.

Public Employees Police and Fire Fund

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.

- Assumed rates of retirement were changed, resulting in fewer retirements.

- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disable annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.

V. Defined Benefit Pension Plans

E. Actuarial Assumptions

Public Employees Police and Fire Fund (Continued)

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%

G. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50%, a reduction from the 7.9% used in 2015. 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 was projected to be available to make all projected future benefit payments of current pan members. Therefore, the long-term expected rate of return on pension plan

V. Defined Benefit Pension Plans

G. Discount Rate (Continued)

investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire Fund and the Correctional Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056 and June 30, 2058 respectively. Beginning in fiscal years ended June 30, 2057 for the Police and Fire Fund and June 30, 2059 for the Correctional Fund, when projected benefit payments exceed the funds projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% for the Police and Fire Fund and 5.31% for the Correctional Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% thereafter.

H. 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 of Net Pension Liability at Current Single Discount Rate
General Employees Fund

Red Lake County	1% Decrease in Discount Rate (6.50%)	Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
Proportionate share of Net Pension Liability	$ 3,386,469	$ 2,183,305	$ 1,198,298

Sensitivity of Net Pension Liability at Current Single Discount Rate
Police and Fire Fund

Red Lake County	1% Decrease in Discount Rate (4.6%)	Discount Rate (5.6%)	1% Increase in Discount Rate (6.6%)
Proportionate share of Net Pension Liability	$ 1,245,907	$ 661,558	$ 179,146

I. 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.

VI. Defined Contribution Plan

Four 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 2017 were:

Contribution Amount		Percentage of Cover Payroll		Required
Employee	Employer	Employee	Employer	Rate
$ 3,284	$ 3,284	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

VII. Summary of Significant Contingencies and Other Items

B. Risk Management (Continued)

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $500,000 per claim in 2017 and 2018. 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. 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, Mahnomen, 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.

VII. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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

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, 2017. Complete financial information can be obtained from the Clay County Sheriff's Office, 915 9th Avenue North, Moorhead, Minnesota 56560.

Inter-County Nursing Service

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

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

The Nursing Service has no long-term debt. Financing is provided by state and federal grants, charges for services, and appropriations from the member counties. Red Lake County contributed $21,888 to the Nursing Service for the year ended December 31, 2017. 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 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.

VII. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northwest Minnesota Household Hazardous Waste Management Group (Continued)

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, 2017. 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.

The Northwest Minnesota Regional Radio Board has no long-term debt. Financing is provided by annual contributions from members, reflective of the extent of participation and use of services. Red Lake County reported no contributions to the NMRRB for the year ended December 31, 2017. 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

VII. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northwest Minnesota Six County Joint Powers Board (Continued)

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, 2017. Complete financial information can be obtained from the Red Lake Watershed District, P.O. Box 803, Thief River Falls, Minnesota 56701.

Northwest Service Cooperative

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

The NWSC is governed by a Board of Directors consisting of school board members elected at large by their peers, one County representative, with a maximum of three at-large appointees and three ex-officio superintendents. The NWSC charges sufficient rates so that the participating members experience no financial benefit or burden.

Red Lake County paid $250 in dues to the NWSC for the year ended December 31, 2017. Complete financial information can be obtained from the Northwest Service Cooperative, 114 First Street West, Thief River Falls, Minnesota 56701.

VII. Summary of Significant Contingencies and Other Items

C. 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, 2017. 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 2017. Complete financial information can be obtained from the St. Hilaire City Treasurer, 102 Broadway Avenue North, St. Hilaire, Minnesota 56754.

VII. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Tri-County Community Corrections

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

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

The Tri-County Community Corrections has no long-term debt. Financing is provided by State, Federal, and local grants, charges for services, and appropriations from member counties. Red Lake County contributed $205,914 to the Community Corrections for the year ended December 31, 2017. 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.

D. Related Organization

Northwest Minnesota Council of Collaboratives

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

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

Financing is provided by the collection of membership dues from the participating collaboratives and agency partners. Tri-County Community Corrections acts as fiscal agent for the Northwest Minnesota Council of Collaboratives and reports the cash transactions of the Council of Collaboratives as an agency fund in its financial statements. During 2017, Red Lake County contributed $1,688 to the Council of Collaboratives.

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

VII. Summary of Significant Contingencies and Other Items (Continued)

E. Jointly-Governed Organizations

Children's Initiative/Family Service Collaborative

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

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

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 2017, the County made no contributions to the Collaborative.

Job Training Partnership Act Joint Powers Agreement

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

VII. Summary of Significant Contingencies and Other Items

E. 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, Mahnomen, Marshall, McLeod, Morrison, Norman, Pennington, Polk, Red Lake, and Roseau Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, which is composed of ten directors, each with an alternate, who are appointed annually by each respective county board. The County's responsibility does not extend beyond making this appointment. Red Lake County reported $2,100 in contributions to the Caucus for the year ended December 31, 2017.

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 2017, 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, 2017.

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.

VII. Summary of Significant Contingencies and Other Items

E. 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's responsibility does not extend beyond making this appointment.

REQUIRED SUPPLEMENTARY INFORMATION

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

Schedule 1

BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Taxes	$ 1,913,174	$ 1,913,174	$ 1,794,905	$ (118,269)
Special assessments	-	-	11,662	11,662
Licenses and permits	100	100	-	(100)
Intergovernmental	451,048	451,048	740,350	289,302
Charges for services	172,542	172,542	205,553	33,011
Investment earnings	174,000	174,000	153,750	(20,250)
Miscellaneous	187,448	187,448	221,781	34,333
Total Revenues	**$ 2,898,312**	**$ 2,898,312**	**$ 3,128,001**	**$ 229,689**
Expenditures				
Current				
General government				
Commissioners	$ 161,606	$ 161,606	$ 160,542	$ 1,064
District court	16,301	16,301	13,228	3,073
Law library	1,660	1,660	561	1,099
County auditor	186,038	186,038	149,585	36,453
License bureau	8,522	8,522	8,511	11
County treasurer	121,844	121,844	116,581	5,263
County assessor	121,520	121,520	118,339	3,181
Elections	6,000	6,000	7,430	(1,430)
Data processing	46,000	46,000	52,781	(6,781)
Personnel	79,107	79,107	77,985	1,122
Professional services	22,000	22,000	11,755	10,245
Attorney	182,628	182,628	178,113	4,515
Recorder	118,706	118,706	104,887	13,819
Buildings and plant	90,276	90,276	82,611	7,665
Veterans service officer	21,933	21,933	22,473	(540)
Insurance	16,000	16,000	14,088	1,912
Other general government	76,383	76,383	17,932	58,451
Total general government	**$ 1,276,524**	**$ 1,276,524**	**$ 1,137,402**	**$ 139,122**

The notes to the required supplementary information are an integral part of this statement.

BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 945,852	$ 945,852	$ 1,002,433	$ (56,581)
Community corrections	197,016	197,016	197,016	-
Coroner	10,900	10,900	11,007	(107)
Crime victim assistance	46,500	46,500	49,543	(3,043)
Enhanced 911	73,587	73,587	59,402	14,185
Emergency services	28,000	28,000	25,720	2,280
Other public safety	7,500	7,500	486	7,014
Total public safety	**$ 1,309,355**	**$ 1,309,355**	**$ 1,345,607**	**$ (36,252)**
Sanitation				
Solid waste	$ 10,650	$ 10,650	$ 31,816	$ (21,166)
Recycling	79,770	79,770	89,708	(9,938)
Individual Septic Treatment System	30,335	30,335	64,857	(34,522)
Total sanitation	**$ 120,755**	**$ 120,755**	**$ 186,381**	**$ (65,626)**
Human services				
Committee on aging	$ 8,360	$ 8,360	$ 8,360	$ -
Buildings and grounds	11,500	11,500	9,151	2,349
Total human services	**$ 19,860**	**$ 19,860**	**$ 17,511**	**$ 2,349**
Health				
Nursing service	$ 21,388	$ 21,388	$ 21,388	$ -
Ambulance	38,000	38,000	38,000	-
Total health	**$ 59,388**	**$ 59,388**	**$ 59,388**	**$ -**
Culture and recreation				
Historical society	$ 2,000	$ 2,000	$ 2,000	$ -
Parks	7,000	7,000	5,000	2,000
Regional library	26,732	26,732	26,732	-
Snowmobile and ski trails	50,000	50,000	45,247	4,753
Celebrations	255	255	255	-
Other culture and recreation	6,300	6,300	6,300	-
Total culture and recreation	**$ 92,287**	**$ 92,287**	**$ 85,534**	**$ 6,753**

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

Schedule 1
(Continued)

BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Expenditures				
Current (Continued)				
Conservation of natural resources				
Agricultural society	$ 10,000	$ 10,000	$ 10,000	$ -
Cooperative extension	92,670	92,670	90,589	2,081
Environmental services	186,398	186,398	152,115	34,283
Red River Basin	107	107	107	-
Soil and water conservation	97,647	97,647	97,782	(135)
Total conservation of natural resources	**$ 386,822**	**$ 386,822**	**$ 350,593**	**$ 36,229**
Economic development				
Red River Valley Development	$ 800	$ 800	$ 800	$ -
Rural life advocacy	-	-	58,929	(58,929)
Total economic development	**$ 800**	**$ 800**	**$ 59,729**	**$ (58,929)**
Capital outlay				
Public safety	$ 47,000	$ 47,000	$ 48,830	$ (1,830)
Total Expenditures	**$ 3,312,791**	**$ 3,312,791**	**$ 3,290,975**	**$ 21,816**
Net Change in Fund Balance	**$ (414,479)**	**$ (414,479)**	**$ (162,974)**	**$ 251,505**
Fund Balance - January 1	**2,160,953**	**2,160,953**	**2,160,953**	**-**
Fund Balance - December 31	**$ 1,746,474**	**$ 1,746,474**	**$ 1,997,979**	**$ 251,505**

The notes to the required supplementary information are an integral part of this statement.

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

Schedule 2

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Taxes	$ 575,000	$ 575,000	$ 523,509	$ (51,491)
Intergovernmental	1,725,000	1,725,000	1,105,962	(619,038)
Charges for services	-	-	167,436	167,436
Investment earnings	-	-	14,383	14,383
Miscellaneous	-	-	36,166	36,166
Total Revenues	**$ 2,300,000**	**$ 2,300,000**	**$ 1,847,456**	**$ (452,544)**
Expenditures				
Current				
Highways and streets				
Administration	$ 255,000	$ 255,000	$ 339,381	$ (84,381)
Maintenance	976,700	976,700	776,620	200,080
Construction	575,000	575,000	129,915	445,085
Equipment maintenance and shop	300,000	300,000	445,148	(145,148)
Town roads	-	-	155,631	(155,631)
Other highways and streets	-	-	53,789	(53,789)
Total highways and streets	**$ 2,106,700**	**$ 2,106,700**	**$ 1,900,484**	**$ 206,216**
Capital outlay				
Highways and streets	20,000	20,000	393,489	(373,489)
Total Expenditures	**$ 2,126,700**	**$ 2,126,700**	**$ 2,293,973**	**$ (167,273)**
Excess of Revenues Over (Under) Expenditures	**$ 173,300**	**$ 173,300**	**$ (446,517)**	**$ (619,817)**
Fund Balance - January 1	**1,327,462**	**1,327,462**	**1,327,462**	**-**
Increase (decrease) in inventories	**-**	**-**	**110,376**	**110,376**
Fund Balance - December 31	**$ 1,500,762**	**$ 1,500,762**	**$ 991,321**	**$ (509,441)**

The notes to the required supplementary information are an integral part of this statement.

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

Schedule 3

BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Taxes	$ 412,030	$ 412,030	$ 373,829	$ (38,201)
Intergovernmental	739,817	739,817	833,852	94,035
Charges for services	110,000	110,000	212,446	102,446
Miscellaneous	239,321	239,321	178,737	(60,584)
Total Revenues	**$ 1,501,168**	**$ 1,501,168**	**$ 1,598,864**	**$ 97,696**
Expenditures				
Current				
Human services				
Income maintenance	$ 952,507	$ 952,507	$ 844,718	$ 107,789
Social services	548,661	548,661	675,547	(126,886)
Total Expenditures	**$ 1,501,168**	**$ 1,501,168**	**$ 1,520,265**	**$ (19,097)**
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ -**	**$ 78,599**	**$ 78,599**
Fund Balance - January 1	**1,360,941**	**1,360,941**	**1,360,941**	**-**
Fund Balance - December 31	**$ 1,360,941**	**$ 1,360,941**	**$ 1,439,540**	**$ 78,599**

The notes to the required supplementary information are an integral part of this statement.

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

Schedule 4

SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2015	-	424,738	424,738	-	2,555,247	16.6%

The notes to the required supplementary information are an integral part of this statement.

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

Schedule 5

SCHEDULE OF EMPLOYER CONTRIBUTIONS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2015	76,540	7,263	9.5%	231,817
December 31, 2016	75,382	15,974	21.2%	291,225
December 31, 2017	74,389	21,727	29.2%	343,887

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 CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA
FOR THE YEAR ENDED DECEMBER 31, 2017

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2015	$ 155,614	$ 155,614	$ -	$ 2,066,864	7.5%
December 31, 2016	$ 160,293	$ 160,293	$ -	$ 2,137,234	7.5%
December 31, 2017	$ 168,019	$ 168,019	$ -	$ 2,240,239	7.5%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2015	$ 67,202	$ 67,202	$ -	$ 414,824	16.2%
December 31, 2016	$ 78,448	$ 78,448	$ -	$ 484,248	16.2%
December 31, 2017	$ 84,017	$ 84,017	$ -	$ 518,623	16.2%

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 7

GOVERNMENTAL ACTIVITIES

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
FOR THE YEAR ENDED DECEMBER 31, 2017

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	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	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
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%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	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	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
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%

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, 2017

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, 2017:

	Expenditures	Budget	Excess
General Fund			
General government			
Elections	$ 7,430	$ 6,000	$ (1,430)
Data processing	52,781	46,000	(6,781)
Veterans service officer	22,473	21,933	(540)
Public safety			
Sheriff	1,002,433	945,852	(56,581)
Coroner	11,007	10,900	(107)
Crime victim assistance	49,543	46,500	(3,043)
Sanitation			
Solid waste	31,816	10,650	(21,166)
Recycling	89,708	79,770	(9,938)
Individual septic treatment system	64,857	30,335	(34,522)
Conservation of natural resources			
Soil and water conservation	97,782	97,647	(135)
Economic development			
Rural life advocacy	58,929	-	(58,929)
Capital outlay			
Public safety	48,830	47,000	(1,830)
Road and Bridge Special Revenue Fund			
Highways and streets			
Administration	339,381	255,000	(84,381)
Equipment maintenance and shop	445,148	300,000	(145,148)
Town roads	155,631	-	(155,631)
Other highways and streets	53,789	-	(53,789)
Capital outlay			
Highways and streets	393,489	20,000	(373,489)
Social Services Special Revenue Fund			
Human services			
Social services	675,547	548,661	(126,886)

II. Other Post-Employment Benefits (OPEB)

Since the last actuarial valuation as of January 1, 2016, 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, withdrawal, and retirement tables were updated.
- The discount rate was changed to 4.00%.
- The percentage of active employees who are assumed to be married was set to 85% for males and 65% for females, with males assumed to be three years older than females.
- The percentage of future retirees who are assumed to continue on the County's medical plan post-employment is 50%.
- The percentage of future spouses or retirees who are assumed to continue on the County's medical plan post-employment is 25%.

There have been no changes to the plan provisions since the last actuarial valuation as of January 1, 2016. Currently, three year's actuarial data is available. For more information, refer to Schedules 4 and 5 of this section and the Notes to the Financial Statements Section IV., Other Post-Employment Benefits.

III. Net Pension Liability

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

A. General Employees Retirement Fund

1. 2017 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.

III. Net Pension Liability

A. General Employees Retirement Fund (Continued)

2. 2016 Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all years.

- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

3. 2015 Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

4. 2015 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. Public Employees Police and Fire Fund

1. 2017 Changes in Actuarial Assumptions

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.

- Assumed rates of retirement were changed, resulting in fewer retirements.

- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.

III. Net Pension Liability

B. Public Employees Police and Fire Fund

1. 2017 Changes in Actuarial Assumptions (Continued)

- 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 disable 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.

2. 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 thereafter to 1.0 percent per year for all future years.

- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate 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.

3. 2015 Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2037 and 2.5 percent per year thereafter.

III. Net Pension Liability

B. Public Employees Police and Fire Fund (Continued)

4. 2015 Changes in Plan Provisions

- The post-retirement benefit increases to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.5 percent, to a fixed rate of 2.5 percent.

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, 2017

	Balance January 1	Additions	Deductions	Balance December 31
CHILDREN'S INITIATIVE/FAMILY SERVICE COLLABORATIVE				
Assets				
Cash and pooled investments	$ 28,458	$ 21,054	$ 25,310	$ 24,202
Liabilities				
Due to other governments	$ 28,458	$ 21,054	$ 25,310	$ 24,202
FLEXIBLE SPENDING				
Assets				
Cash and pooled investments	$ 3,953	$ 5,119	$ 5,695	$ 3,377
Liabilities				
Accounts payable	$ 3,953	$ 5,119	$ 5,695	$ 3,377
FORFEITED TAX				
Assets				
Cash and pooled investments	$ 12,437	$ -	$ 597	$ 11,840
Liabilities				
Accounts payable	$ 12,437	$ -	$ 597	$ 11,840
INSURANCE				
Assets				
Cash and pooled investments	$ -	$ 585,039	$ 599,674	$ (14,635)
Liabilities				
Accounts payable	$ -	$ 585,039	$ 599,674	$ (14,635)

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, 2017

	Balance January 1	Additions	Deductions	Balance December 31
NORTHWEST MINNESOTA MULTI-COUNTY HOUSING AND REDEVELOPMENT				
Assets				
Cash and pooled investments	$ -	$ 32,212	$ 32,212	$ -
Liabilities				
Accounts payable	$ -	$ 32,212	$ 32,212	$ -
NORTHWEST REGIONAL DEVELOPMENT COMMISSION				
Assets				
Cash and pooled investments	$ -	$ 12,543	$ 12,543	$ -
Liabilities				
Due to other governments	$ -	$ 12,543	$ 12,543	$ -
PREPAID TAXES				
Assets				
Cash and pooled investments	$ 1,082	$ 17,992	$ 2,272	$ 16,802
Liabilities				
Due to other governments	$ 1,082	$ 17,992	$ 2,272	$ 16,802
SCHOOL DISTRICTS				
Assets				
Cash and pooled investments	$ -	$ 2,263,059	$ 2,263,059	$ -
Liabilities				
Due to other governments	$ -	$ 2,263,059	$ 2,263,059	$ -

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, 2017

	Balance January 1	Additions	Deductions	Balance December 31
STATE REVENUE				
Assets				
Cash and pooled investments	**$ 11,554**	**$ 1,387,093**	**$ 1,387,483**	**$ 11,164**
Liabilities				
Due to other governments	**$ 11,554**	**$ 1,387,093**	**$ 1,387,483**	**$ 11,164**
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	**$ 154,252**	**$ 8,376,497**	**$ 8,424,751**	**$ 105,998**
Liabilities				
Due to other governments	**$ 154,252**	**$ 8,376,497**	**$ 8,424,751**	**$ 105,998**
TOWNS AND CITIES				
Assets				
Cash and pooled investments	$ **1,102**	**$ 1,759,305**	**$ 1,760,407**	**$ -**
Liabilities				
Due to other governments	**$ 1,102**	**$ 1,759,305**	**$ 1,760,407**	**$ -**
WATERSHED				
Assets				
Cash and pooled investments	**$ -**	**$ 276,479**	**$ 276,479**	**$ -**
Liabilities				
Due to other governments	**$ -**	**$ 276,479**	**$ 276,479**	**$ -**

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, 2017

	Balance January 1	Additions	Deductions	Balance December 31
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 212,838	$ 14,736,392	$ 14,790,482	$ 158,748
Liabilities				
Accounts payable	$ 16,390	$ 622,370	$ 638,178	$ 582
Due to other governments	196,448	14,114,022	14,152,304	158,166
Total Liabilities	**$ 212,838**	**$ 14,736,392**	**$ 14,790,482**	**$ 158,748**

OTHER SCHEDULES

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2017

	Assets			
	Cash	Special Assessments Receivable Current	Special Assessments Receivable Prior	Total Assets
County Ditches				
2	$ 25,436	$ 5,000	$ -	$ 30,436
3	36,795	-	-	36,795
4	31,559	5,000	2	36,561
9	29,511	3,000	5	32,516
12	20,808	3,000	-	23,808
17	27,589	3,000	-	30,589
18-65	25,431	2,000	254	27,685
22	6,874	1,000	-	7,874
23	6,751	500	-	7,251
24	28,706	3,000	-	31,706
28	3,838	1,000	-	4,838
57	35,813	4,000	480	40,293
58	33,340	4,000	-	37,340
60	23,332	4,000	30	27,362
61	24,223	5,000	407	29,630
62	44,286	5,000	-	49,286
64	10,727	2,000	-	12,727
67	28,037	1,500	-	29,537
69	8,421	2,000	-	10,421
70	4,618	500	-	5,118
Joint Ditches				
1	55,368	5,000	72	60,440
3	40,003	500	-	40,503
11	14,318	1,500	-	15,818
13	14,121	3,000	-	17,121
15	22,591	4,000	2	26,593
31	11,635	2,000	-	13,635
60	38,127	6,000	174	44,301
64	27,384	4,000	-	31,384
66	4,937	8,000	-	12,937
71	17,942	1,000	-	18,942
Watershed Ditches				
1	-	-	64	64
3	-	-	-	-
7	23	-	343	366
Clearwater River Project	147	-	252	399
Lost River Improv Project	-	-	-	-
10	11,662	-	-	11,662
Total	**$ 714,353**	**$ 89,500**	**$ 2,085**	**$ 805,938**

Schedule 8

Liabilities: Due to Other Funds	Deferred Inflows of Resources	Fund Balances Restricted	Total Liabilities, Deferred Inflows of Resources, and Fund Balances
$ -	$ 5,000	$ 25,436	$ 30,436
-		36,795	36,795
-	5,002	31,559	36,561
-	3,005	29,511	32,516
-	3,000	20,808	23,808
-	3,000	27,589	30,589
-	2,254	25,431	27,685
-	1,000	6,874	7,874
-	500	6,751	7,251
-	3,000	28,706	31,706
-	1,000	3,838	4,838
-	4,480	35,813	40,293
-	4,000	33,340	37,340
-	4,030	23,332	27,362
-	5,407	24,223	29,630
-	5,000	44,286	49,286
-	2,000	10,727	12,727
-	1,500	28,037	29,537
-	2,000	8,421	10,421
-	500	4,618	5,118
-	5,072	55,368	60,440
-	500	40,003	40,503
-	1,500	14,318	15,818
-	3,000	14,121	17,121
-	4,002	22,591	26,593
-	2,000	11,635	13,635
-	6,174	38,127	44,301
-	4,000	27,384	31,384
-	8,000	4,937	12,937
-	1,000	17,942	18,942
-	64	-	64
-	-	-	-
-	343	23	366
-	252	147	399
-	-	-	-
11,662	-	-	11,662
$ 11,662	**$ 91,585**	**$ 702,691**	**$ 805,938**

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

Schedule 9

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2017

Shared Revenue		
State		
County program aid	$	138,854
County Aquatic Invasive Species Prevention Aid		6,850
Disparity reduction aid		30,731
Enhanced 911		73,587
Highway users tax		1,052,892
Market value credit		95,772
PERA rate reimbursement		8,965
Police state aid		66,479
Riparian Protection Aid		75,056
Total Shared Revenue	**$**	**1,549,186**
Reimbursement for Services		
State		
Minnesota Department of Human Services	$	31,249
Payments		
Payments in lieu of taxes	$	13,225
Grants		
State		
Minnesota Department/Board of		
Corrections	$	572
Human Services		201,013
Natural Resources		35,945
Peace Officer Standards and Training		2,543
Pollution Control Agency		76,650
Public Safety		10,132
Trial Courts		2,194
Veterans Affairs		7,500
Water and Soil Resources		87,927
Total State	**$**	**424,476**
Federal		
Department of		
Agriculture	$	67,235
Justice		29,868
Health and Human Services		551,129
Homeland Security		13,796
Total Federal	**$**	**662,028**
Total Grants	**$**	**1,086,504**
Total Intergovernmental Revenue	**$**	**2,680,164**

MANAGEMENT AND COMPLIANCE SECTION

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

Hoffman, Philipp, & Knutson, PLLC

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

Independent Auditor's Report

Board of County Commissioners
Red Lake County

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Red Lake County as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 29, 2019.

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 1996-004, 2007-001, 2015-001, 2015-003, 2015-004, 2015-005, 2015-006, 2015-009, 2015-010, 2015-011, and 2015-012 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 2015-015, 2015-018, and 2015-019. 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 are management practices comment items 2015-022 and 2015-023. We believe these recommendations and information to be of benefit to the County, and they are reported for that purpose.

Red Lake County's Responses to Findings

Red Lake County's responses to the findings identified in our audit have been included in the accompanying Schedule of Findings and Responses. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* and the result of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

Hoffman, Philipp, & Knutson, PLLC
November 29, 2019

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2017

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number: 1996-004
Finding Title: Segregation of Duties

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

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

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

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

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

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

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

Finding Number: 2007-001
Finding Title: Documenting and Monitoring Internal Controls

Criteria: County management is responsible for developing and monitoring its internal controls. An essential element of monitoring controls includes documenting the County's accounting policies and procedures and performing a risk assessment of existing controls over significant functions of the accounting system used to

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

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

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

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

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

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

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

Finding Number: 2015-001
Finding Title: Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal

control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

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

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

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

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

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

Finding Number: 2015-003
Finding Title: Management and Audit Responsibilities

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

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

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

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

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

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

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

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

Finding Number: 2015-004
Finding Title: Journal Entry Controls

Criteria: Management is responsible for establishing and maintaining internal controls and for the accuracy and completeness of all financial records and related information including, but not limited to, the controls over initiating, authorizing, recording, and processing journal entries in the general ledger system.

Condition: There was no documented review and approval for journal entries entered in the general ledger system, and not all of the journal entries tested had supporting documentation on file.

Context: Posting journal entries is limited to two departments within the County.

Effect: There is an increased risk that errors or irregularities, including management override of controls, will not be detected in a timely manner.

Cause: The County has no requirement or formal process to document review and approval of journal entries. Also, the County indicated that, due to the limited number of staff, it is not feasible to have more than one staff member performing tasks related to journal entries. The County was unable to provide supporting documentation for some of the journal entries tested because the information was misplaced during the turnover of staff.

Recommendation: We recommend internal controls be implemented to ensure that all journal entries are reviewed and approved by someone other than the person making the journal entry before being posted to the general ledger. The review and approval should be documented by a signature and date. In addition, supporting documentation should be retained for all journal entries.

County's Response: *The County Auditor currently reviews and authorizes all journal entries by signature and date.*

Finding Number: 2015-005
Finding Title: Capital Assets

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

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

- No supporting documentation is required for disposal of assets. At the end of the year, department heads review a listing of assets and cross off assets no longer in use.

- Additions to capital assets are listed on the County's Property and Equipment Record form, but additional documentation supporting those additions, such as when the asset was acquired or the cost of the asset, is not required and, therefore, not used to verify asset additions.

- Department head review of asset listings and annual physical inventories of assets are not documented.

- The County had adopted the OSA recommended Capital Asset Policy which includes recommended capitalization thresholds and useful lives of capital assets used for financial reporting purposes.

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

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

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

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

County's Response: *The county does complete a physical inventory of capital assets on an annual basis.*

The Auditor's office has already implemented an improved capital asset record system tor recording additions and deletions, and in addition requires the supporting documentation from each department. The Auditor's Office has the supporting department asset sheets on file as supporting documentation. Department Heads are required to approve their departmental asset records.

Finding Number: 2015-006
Finding Title: Inventory Records

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

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

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

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

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

Recommendation: The County should develop procedures related to inventory that include physical inventory counts. The physical inventory counts should be performed annually, by at least two individuals, and all support for year-end balances should be approved and maintained.

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

Finding Number: 2015-009
Finding Title: Sheriff's Office Internal Control Deficiencies

Criteria: A good set of internal controls includes completing receipts when money is received for all collections and promptly stamping all checks "For Deposit Only." Bank statements should be routinely reconciled with the cash balances recorded in the books of the account. Credit cards issued to specific department individuals should not be used for other County departments.

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

- Checks are not promptly stamped with a restrictive endorsement upon receipt, but rather are stamped when the deposit or remittance is prepared.

- Bank reconciliations are not being performed on either of the two Sheriff's Office's departmental checking accounts.

Context: The establishment and oversight of departmental internal control procedures is particularly important because, generally, smaller departments lack proper segregation of duties, which increases the risk of errors or fraud.

Effect: When internal controls over cash receipts and bank accounts are not implemented, there is an increased risk of fraud or misappropriation of assets.

Cause: The County does not have policies and procedures designed or implemented to provide oversight and safeguards in the Sheriff's Office. Sheriff's Office staff were not aware that controls over the aforementioned items were important.

Recommendation: We recommend management design and implement controls in the Sheriff's Office to include the use of the manual receipt book for all monies received in the Sheriff's Office, restrictive endorsement of all checks upon their receipt, and preparation of bank reconciliations for both checking accounts.

County's Response: *County Sheriff acknowledges that corrective measures have been implemented. Checks are now immediately stamped "For Deposit Only". The bank statements are reconciled as required.*

Finding Number: 2015-010
Finding Title: Budgeting Procedures

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

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

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

Effect: General Fund budgeted revenues were $1,806,839 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.*

Finding Number: 2015-011
Finding Title: Fund Balance Reporting

Criteria: Governments are required to report amounts in the appropriate fund balance classifications, in accordance with GASB Statement 54 (GASB 54), by applying their accounting policies to determine whether restricted, committed, assigned, or unassigned resources have been spent. Resources identified to be used for specific purposes pursuant to constraints imposed by formal action of the County Board should be reported as committed fund balance.

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

Context: The County has a fund balance policy that establishes specific guidelines for the County to use to classify fund balances into categories based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts can be spent. The policy also states the County Auditor shall annually prepare the status of fund balances in relation to the policy for presentation to the County Board.

Effect: Significant differences of fund balance were noted in the General Fund and in the Road and Bridge and Social Services Special Revenue Funds in relation to restricted, committed, and assigned fund balance.

Cause: Several of the classifications were carried over from designations of fund balance in pre-GASB 54 financial statements. Not all revenues and expenditures of the Sheriff's Office are separately tracked to support fund balance amounts.

Recommendation: We recommend the County develop procedures to ensure all fund balance classifications comply with GASB 54 requirements.

County's Response: *The County will more clearly identify/classify fund balance categories to correlate with the current GASB 54 requirements.*

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number: 2015-015
Finding Title: Publishing Requirements

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

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

- Pursuant to Minn. Stat. § 375.12, within 30 days of each meeting, the County Board must have the official proceedings of its sessions or a summary published in a qualified newspaper of general circulation in the County. The affidavits of publication related to the publishing of a summary of the County Board minutes for 2017 were reviewed. The summaries were not published in the County's official newspaper within the 30-day requirement.

- Pursuant to Minn. Stat. § 375.169, annually, upon adoption of the County budget, the County must publish a summary budget statement in a form prescribed by the State Auditor in the County's official newspaper. The County did not publish the 2017 budget.

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

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

Cause: County staff stated this was an oversight.

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

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

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

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

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

comply with all statutes, rules, or county policy applicable to county purchases."

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

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

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

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

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

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

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

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

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

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

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

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

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

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

made via EFT.

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

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

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

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

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

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

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

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

major computer breakdown.

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

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

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

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

Finding Number: 2015-023
Finding Title: Social Welfare Fund Activity

Criteria: In general, a public entity must have either express or implied statutory (or charter) authority to make an expenditure. Red Lake County does not have the authority to act as an agent for private charities.

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

Context: As of December 31, 2017, the social welfare checking account held funds received from charity programs that did not belong to social welfare clients.

Effect: The County is using public funds to pay salaries covering the work hours used to operate charity programs that the County has no authority to operate.

Cause: County staff were not aware specific authority was required for County staff to handle charity programs.

Recommendation: We recommend the County discontinue acting as agent for private charities by locating other entities within the County to manage the donation programs.

County's Response: *County Social Services has discontinued acting as an agent for private charities. Social Services is presently working on transferring the funds received and held in the County Social Service Fund to the charitable organizations.*

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Red Lake County Auditors Office

Bob Schmitz, County Auditor

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017

Finding Number: 1996-004
Finding Title: Segregation of Duties

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

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

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

Finding Number: 2007-001
Finding Title: Documenting and Monitoring Internal Controls

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

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

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

Finding Number: 2015-001
Finding Title: Audit Adjustments

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

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

Anticipated Completion Date: Commence in conjunction with the release of audited reports for fiscal 2017.

Finding Number: 2015-003
Finding Title: Management and Audit Responsibilities

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

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

Anticipated Completion Date: Commence in conjunction with the release of our audited financial reports for fiscal 2017.

Finding Number: 2015-004
Finding Title: Journal Entry Controls

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

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

Anticipated Completion Date: Signature approval and date process to begin immediately.

Finding Number: 2015-005
Finding Title: Capital Assets

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

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

Anticipated Completion Date: December 31, 2019.

Finding Number: 2015-006
Finding Title: Inventory Records

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

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

Anticipated Completion Date: December 31, 2019.

Finding Number: 2015-009
Finding Title: Sheriff's Office Internal Control Deficiencies

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

Summary of Corrective Action Previously Reported: The County will use restrictive endorsement "For Deposit Only" stamp and the Office Manager will stamp restrictive endorsement to checks as received. The credit card will only be used for Sheriff Office purchases. The Sheriff Office will work with the County Auditor's Office for bank reconciliations.

Anticipated Completion Date: January 31, 2019.

Finding Number: 2015-010
Finding Title: Budgeting Procedures

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

Services Director

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

Anticipated Completion Date: December 31, 2019.

Finding Number: 2015-011
Finding Title: Fund Balance Reporting

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

Summary of Corrective Action Previously Reported: The County will review fund balance commitments with the County Board of Commissioners committing resources to specific projects in all fund accounts.

Anticipated Completion Date: Commence in conjunction with the release of audited financial reports for fiscal 2017.

Finding Number: 2015-015
Finding Title: Publishing Requirements

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

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

Anticipated Completion Date: Immediately.

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

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

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

Anticipated Completion Date: December 31, 2019.

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

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

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

Anticipated Completion Date: December 31, 2019.

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

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

Summary of Corrective Action Previously Reported: A more comprehensive plan will be developed by a small committee including one representative from Social Services, the County Auditor, and any other key personnel as identified by the County Auditor. Planning will begin immediately with full plan to be presented to the County Board for approval by June 30, 2019.

Anticipated Completion Date: June 30, 2019.

Finding Number: 2015-023
Finding Title: Social Welfare Fund Activity

Name of Contact Person Responsible for Corrective Action: Penny Grove, Social Services Fiscal Supervisor

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

Anticipated Completion Date: December 31, 2019.

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Red Lake County Auditors Office

Bob Schmitz, County Auditor

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

Finding Number: 1996-004
Finding Title: Segregation of Duties

Summary of Condition: Due to the limited number of personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible.

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

Status: Not corrected.

Finding Number: 2007-001
Finding Title: Internal Controls

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

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

Status: Not corrected.

Finding Number: 2015-001
Finding Title: Audit Adjustments

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

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

Status: Not fully corrected.

Finding Number: 2015-002
Finding Title: Prior Period Adjustment

Summary of Condition: A material prior period adjustment was identified that resulted in significant changes to the County's financial statements. The December 31, 2014 balance of capital assets, net of accumulated depreciation, was overstated as the result of recording yearly construction costs for road projects as both an infrastructure asset and construction in progress. The prior period

adjustment to restate the County's financial statements was reviewed and approved by management and is reflected in the 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: Corrected.

Finding Number: 2015-003
Finding Title: Management and Audit Responsibilities

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

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

Status: Not fully corrected.

Finding Number: 2015-004
Finding Title: Journal Entry Controls

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

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

Status: Not fully corrected.

Finding Number: 2015-005
Finding Title: Capital Assets

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

- Non-depreciable capital assets: construction in progress was decreased for infrastructure projects completed during the year that were also recorded as depreciable capital assets.
- No supporting documentation is required for disposal of assets. At the end of the year, department heads review a listing of assets and cross off assets no longer in use.
- Additions to capital assets are listed on the County's Property and Equipment Record form, but additional documentation supporting those additions, such as when the asset was acquired or the cost of the asset, is not required and, therefore, not used to verify asset additions.
- Department head review of asset listings and annual physical inventories of assets are not documented.

- The County could not provide support for the capitalization thresholds or useful lives of capital assets used for financial reporting purposes and indicated it neither calculates nor tracks depreciation.

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

Status: Not fully corrected.

Finding Number: 2015-006
Finding Title: Inventory Records

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

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

Status: Not fully corrected.

Finding Number: 2015-007
Finding Title: Financial Statement Disclosures

Summary of Condition: Certain presentations and disclosures in the originally prepared 2015 financial report were either not reported or were not reported correctly:

Summary of Corrective Action: The County has established a process to review its financial statements more closely before being approved for release.

Status: Corrected.

Finding Number: 2015-008
Finding Title: Segregation of Duties – Vendor Setup

Summary of Condition: The County Auditor, Deputy Auditor, and the Fiscal Officer at Social Services with access to the Integrated Financial System (IFS) had the ability to setup new vendors. These positions also had the ability to approve and process disbursements.

Summary of Corrective Action: The Social Services Fiscal Supervisor is responsible for setting up Welfare Fund vendors, and the County Auditor is responsible for setting up vendors for the Revenue, Road & Bridge, and other funds. The County Treasurer verifies all new vendors and documents the procedure utilized for verification.

Status: Corrected.

Finding Number: 2015-009
Finding Title: Sheriff's Office Internal Control Deficiencies

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

- Checks are not promptly stamped with a restrictive endorsement upon receipt, but rather are stamped with the deposit or remittance is prepared.

- The Sheriff's Office credit cards are being used for other County department expenditures. These are then reimbursed to the Sheriff's Office with a warrant and subsequently receipted as charges for services revenue in the Sheriff's Office.

- Bank reconciliations are not being performed on either of the two Sheriff's Office departmental checking accounts.

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

Status: Not fully corrected.

Finding Number: 2015-010
Finding Title: Budgeting Procedures

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

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

Status: Not fully corrected.

Finding Number: 2015-011
Finding Title: Fund Balance Reporting

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

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

Status: Not fully corrected.

Finding Number: 2015-012
Finding Title: iSeries System Settings

Summary of Condition: Some of the County's iSeries server system values settings are weak. For example, the server does not have a time-out for inactive jobs and has poor password controls; the password does not require changing, does not require a digit, and can be the same as previous passwords.

Summary of Corrective Action: The County will implement stronger value settings for County iSeries Information Systems that will limit access to I-Series applications to protect County data. The County recently installed a locked security cabinet to store the iSeries System hardware and all related components.

Status: Completed. (Stronger value settings were completed in April and May 2018. Security cabinet was completed in October 2018.)

Finding Number: 2015-013
Finding Title: Uniform Guidance Written Procurement Policies and Procedures

Summary of Condition: The County did not have written procurement policies, including provisions for written standards of conduct and suspension and debarment, during 2015 and they did not enact the waiver offered by the Uniform Guidance for implementation of the procurement standards.

Summary of Corrective Action: The County has reviewed the current Procurement Policy and included the additional information related to Uniform Guidance requirements.

Status: Corrected.

Finding Number: 2015-014
Finding Title: Identification of Federal Awards

Summary of Condition: The County did not properly identify the amount expended for the Highway Planning and Construction cluster.

Summary of Corrective Action: The County has implemented procedures to properly identify and track Federal expenditures.

Status: Corrected.

Finding Number: 2015-015
Finding Title: Publishing Requirements

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

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

- Minn. Stat. § 375.169: The County did not publish the 2015 budget.

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

Status: Not fully corrected.

Finding Number: 2015-016
Finding Title: Acceptance of Donations

Summary of Condition: During 2015, the County received numerous donations, however, the County Board minutes did not include approval or acceptance of these donations.

Summary of Corrective Action: A policy regarding accepting donations has been reviewed/updated/developed as needed to include that a form is now used for requesting County Board approval. A form to list donations and any conditions has been developed for County departments to list donations that are approved by the County Board in accordance with the donation policy.

Status: Corrected.

Finding Number: 2015-017
Finding Title: Out-of-State Travel Policy

Summary of Condition: The County's travel policy indicates out-of-state travel must be approved by the County Board and requires an original receipt accompany all vouchers. However, the travel policy does not include applicable expense limits in accordance with Minn. Stat. § 471.661.

Summary of Corrective Action: The County has updated the travel policy to add monetary spending limits as required by statute.

Status: Corrected.

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

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

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

Status: Not fully corrected.

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

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

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

Status: Not fully corrected.

Finding Number: 2015-020
Finding Title: Depository Pledge Agreement

Summary of Condition: The County had deposits in excess of FDIC coverage where Unity Bank North provided sufficient collateral. However, neither the County Treasurer nor Unity Bank North were able to provide a current pledge agreement.

Summary of Corrective Action: The County has a Depository Pledge Agreement in place with their financial institutions.

Status: Corrected.

Finding Number: 2015-021
Finding Title: Open-Ended Mutual Fund

Summary of Condition: At December 31, 2015, the County held investments in mortgage mutual

funds called VOYA GNMA Income Fund Class A LEXNX (VOYA). VOYA does not qualify as a permissible public investment under Minn. Stat. § 118A.05, subd. 4.

Summary of Corrective Action: The County has determined an appropriate resolution by eliminating this investment.

Status: Corrected.

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

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

Summary of Corrective Action: A more comprehensive plan will be developed by a small committee including one representative from Social Services, the County Auditor, and any other key personnel as identified by the County Auditor. Planning will begin immediately with full plan to be presented to the County Board for approval by June 30, 2020.

Status: Not fully corrected.

Finding Number: 2015-023
Finding Title: Social Welfare Fund Activity

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

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

Status: Not fully corrected.

Finding Number: 2015-024
Finding Title: Employee Recognition Program Awards

Summary of Condition: During 2015, Red Lake County provided gift certificates as awards to employees for length of service. Contrary to IRS Publication 525, these gift certificates were excluded from the applicable employees' incomes.

Summary of Corrective Action: The current County policy has been clarified noting that all gift certificates issued will be taxable to all recipient employees.

Status: Corrected.