STATE OF MINNESOTA

Office of the State Auditor

Julie Blaha
State Auditor

CARLTON COUNTY
CARLTON, MINNESOTA

YEAR ENDED DECEMBER 31, 2018

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 100 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice – conducts financial and legal compliance audits of local governments;

Government Information – collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations – provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension – monitors investment, financial, and actuarial reporting for approximately 600 public pension funds; and

Tax Increment Financing – promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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CARLTON COUNTY
CARLTON, MINNESOTA

Year Ended December 31, 2018

Audit Practice Division
Office of the State Auditor
State of Minnesota

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CARLTON COUNTY
CARLTON, MINNESOTA

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Introductory Section

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CARLTON COUNTY
CARLTON, MINNESOTA

ORGANIZATION
AS OF DECEMBER 31, 2018

			Term Expires
Elected			
Commissioners			
Board Member	Dick Brenner	District 1	January 2021
Board Member	Marv Bodie	District 2	January 2019
Board Member	Thomas Proulx	District 3	January 2021
Board Chair	Susan Zmyslony	District 4	January 2019
Board Member	Gary Peterson	District 5	January 2021
Attorney	Thomas H. Pertler		January 2019
Auditor/Treasurer	Paul Gassert		January 2019
Sheriff	Kelly Lake		January 2019
Appointed			
Assessor	Kyle Holmes		January 2021
Recorder	Kristine Basilici		January 2019
Registrar of Titles	Kristine Basilici		January 2019
Highway Engineer	JinYeene Neumann		May 2022
Veterans Service Officer	Duane Brownie		January 2021
Surveyor	William Hayden		December 2018
County Coordinator	Dennis Genereau		Indefinite

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Carlton County
Carlton, Minnesota

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 Carlton County, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Adverse Opinion on Governmental Activities

As discussed in Note 1.D.4. to the financial statements, Carlton County has not reported capital assets, including infrastructure assets, in the governmental activities and, accordingly, has not reported depreciation expense on those assets and has not eliminated the related capital expenditures. Accounting principles generally accepted in the United States of America require that capital assets, including infrastructure assets, be capitalized and depreciated, which would increase the assets, net position, and change expenses of the governmental activities. The amount by which this departure affects the assets, net position, and expenses of the governmental activities is not reasonably determinable.

Also, as discussed in Note 1.D.9. to the financial statements, Carlton County has not reported its other postemployment benefits (OPEB) liability in the governmental activities and, accordingly, has not reported an expense for the current period change in the total OPEB liability. Accounting principles generally accepted in the United States of America require that OPEB liabilities, which arise from an exchange of salaries and benefits for employee services and are part of the compensation that employers offer for services received, be accrued as liabilities and expenses as the employees earn the right to benefits. Accruing OPEB costs would increase liabilities, deferred outflows of resources, deferred inflows of resources, reduce net position, and change the expenses of the governmental activities. The amount by which this departure affects the liabilities, deferred outflows of resources, deferred inflows of resources, net position, and expenses of the governmental activities is not reasonably determinable.

Adverse Opinion

In our opinion, because of the effects of the matters described in the "Basis for Adverse Opinion on Governmental Activities" section above, the financial statements do not present fairly, in all material respects, the financial position of the governmental activities of Carlton County as of December 31, 2018, or the changes in financial position thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Carlton County as of December 31, 2018, and respective changes in financial position thereof 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 Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 Carlton County's basic financial statements. The Other Information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2019, on our consideration of Carlton 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 solely 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 effectiveness of Carlton County's 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 Carlton County's internal control over financial reporting and compliance.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 19, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018
(Unaudited)

Carlton County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2018. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is $14,130,257, of which $9,860,057 is restricted for specific purposes.

- Carlton County's governmental activities' net position increased by $4,601,938 for the year ended December 31, 2018.

- The net cost of governmental activities was $27,998,726 for the current fiscal year. The net cost was funded by general revenues totaling $32,600,664.

- Governmental funds' fund balances increased by $2,411,066.

- Carlton County has not established capital asset records or recorded the related depreciation as required by Governmental Accounting Standards Board (GASB) Statement 34. Carlton County also has not determined the net other postemployment benefits liability as required by GASB Statement 75.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Carlton County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) and certain budgetary comparison schedules are required to accompany the basic financial statements and, therefore, are included as required supplementary information.

There are two government-wide financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

Government-Wide Financial Statements—The Statement of Net Position and the S Statement of Activities

The Statement of Net Position and the Statement of Activities report information about the County as a whole and about its activities in a way that helps the reader determine whether the County's financial condition has improved or declined as a result of the year's activities. These statements include all assets and liabilities using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's net position and changes in it. You can think of the County's net position—the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources—as one way to measure the County's financial health, or financial position. Over time, increases or decreases in the County's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the County's property tax base and the condition of infrastructure (as well as other factors), to assess the overall health of the County.

In the Statement of Net Position and the Statement of Activities, all activities of the County are governmental, including 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.

Fund Financial Statements

The fund financial statements provide detailed information about the significant funds—not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

All of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation following each governmental fund financial statement.

Reporting the County's Fiduciary Responsibilities

The County is the trustee, or fiduciary, over assets that can be used only for the trust beneficiaries based on the trust arrangement. All of the County's fiduciary balances are reported in a separate Statement of Fiduciary Net Position. These activities are excluded from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE COUNTY AS A WHOLE

Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the County's governmental activities.

Table 1
Net Position
(in Thousands)

	2018	2017
Assets	$ 49,821	$ 46,991
Deferred Outflows of Resources		
Deferred pension outflows	$ 6,150	$ 8,539
Liabilities		
Long-term liabilities outstanding	$ 29,792	$ 33,971
Other liabilities	3,707	4,152
Total Liabilities	$ 33,499	$ 38,123
Deferred Inflows of Resources		
Deferred pension inflows and prepaid property taxes	$ 8,342	$ 7,879
Net Position		
Restricted	$ 9,860	$ 8,865
Unrestricted	4,270	663
Total Net Position	$ 14,130	$ 9,528

Table 2
Changes in Net Position
(in Thousands)

	2018	2017
Revenues		
Program revenues		
Fees, charges, fines, and other	$ 7,716	$ 8,050
Operating grants and contributions	19,145	16,794
Capital grants and contributions	226	905
General revenues		
Property taxes	26,271	25,165
Other taxes	2,310	2,407
Grants and contributions	3,010	2,795
Other general revenues	1,010	567
Total Revenues	$ 59,688	$ 56,683
Expenses		
Program expenses		
General government	$ 8,973	$ 8,740
Public safety	9,279	10,123
Culture and recreation	545	495
Highways and streets	11,247	15,808
Human services	18,808	17,315
Health	1,594	1,493
Sanitation	1,779	1,625
Conservation of natural resources	1,552	1,480
Economic development	1,143	947
Interest	166	175
Total Expenses	$ 55,086	$ 58,201
Increase (Decrease) in Net Position	$ 4,602	$ (1,518)
Net Position, January 1	9,528	11,046
Net Position, December 31	$ 14,130	$ 9,528

Governmental Activities

The cost of all governmental activities this year was $55,086,080. However, as shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through County taxes was only $26,270,613, because some of the cost was paid by those who directly benefited from the programs ($7,716,344) or by other governments and organizations that subsidized certain programs with grants and contributions ($19,371,010).

Table 3 presents the cost of each of the County's five largest program functions, as well as each function's net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden that was placed on the County's taxpayers by each of these functions.

Table 3
Governmental Activities
(in Thousands)

	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
General government	$ 8,973	$ 8,740	$ 6,728	$ 6,809
Public safety	9,279	10,123	8,062	9,220
Highways and streets	11,246	15,808	3,882	8,049
Human services	18,808	17,315	7,191	6,700
Sanitation	1,779	1,626	472	538
All others	5,001	4,589	1,664	1,136
Totals	$ 55,086	$ 58,201	$ 27,999	$ 32,452

THE COUNTY'S FUNDS

As the County completed the year, its governmental funds reported a combined fund balance of $42,193,860, which is greater than last year's total of $39,782,794. Included in this year's total fund balance is a surplus of $21,612,991 in the County's General Fund. The overall increase in the governmental funds was primarily due to an increase in unrestricted funds in the General Fund and Human Services Special Revenue Fund.

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) for the County's General Fund were less than the final budget by $2,595,934. The largest variance was in the airport commission.

Resources available for appropriation (revenues) were less than the final budget for the County's General Fund by $665,341. Collections were greater than expected in charges for services and investment earnings, and less than expected for real estate taxes, intergovernmental revenue and miscellaneous revenues.

Fund balance was expected to decrease by $396,874 for the year. Actual fund balance increased by $1,585,508, due primarily to actual expenditures being less than the budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the County had not completed an inventory and historical cost analysis of its capital assets, including infrastructure. It is anticipated that the analysis will be performed over the next year, and a record-keeping system will be established.

Debt

At year-end, the County had $9,780,000 outstanding in general obligation bonds backed by the County, versus $10,590,000 last year.

The County did not issue bonds in 2018. Principal and interest payments on all bonds and notes will not exceed the amount allowed by Minn. Stat. § 373.40.

Other obligations include accrued vacation pay and sick leave payable. More detailed information about the County's long-term liabilities is presented in Note 2.C. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND LEVY

The County's elected and appointed officials considered many factors when setting the fiscal year 2019 budget and tax levy:

- anticipated general COLA increase of 3.0 percent,
- anticipated health insurance increase of 9.3 percent,
- increase of $105,445 for various new staff,
- increase of $420,000 in projected interest income,
- increase of $400,000 in building maintenance costs,
- increase of $80,000 for additional CHIPS legal services, and
- increase of 2.98 percent for property tax levies in 2019.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Acting Auditor/Treasurer, Kathy Kortuem, Carlton County Courthouse, 301 Walnut Avenue, Carlton, Minnesota 55718.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2018

Assets		
Cash and pooled investments	$	36,886,208
Receivables		10,359,991
Inventories		858,587
Prepaid items		1,715,708
Total Assets	**$**	**49,820,494**
Deferred Outflows of Resources		
Deferred pension outflows	**$**	**6,150,276**
Liabilities		
Accounts payable and other current liabilities	$	3,402,539
Accrued interest payable		76,719
Unearned revenue		228,214
Long-term liabilities		
Due within one year		815,000
Due in more than one year		12,851,654
Net pension liability		16,124,885
Total Liabilities	**$**	**33,499,011**
Deferred Inflows of Resources		
Deferred pension inflows	**$**	**8,341,502**
Net Position		
Restricted for		
General government	$	508,497
Public safety		105,660
Highways and streets		2,812,161
Conservation of natural resources		274,391
Sanitation		79,042
Economic development		3,985,996
Debt service		2,094,310
Unrestricted		4,270,200
Total Net Position	**$**	**14,130,257**

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

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Functions/Programs					
Governmental activities					
General government	$ 8,972,751	$ 1,926,845	$ 317,409	$ -	$ (6,728,497)
Public safety	9,278,691	394,043	822,905	-	(8,061,743)
Highways and streets	11,246,664	879,033	6,485,955	-	(3,881,676)
Sanitation	1,779,351	1,205,701	101,664	-	(471,986)
Human services	18,807,851	1,587,483	10,029,674	-	(7,190,694)
Health	1,593,978	975,062	670,640	-	51,724
Culture and recreation	545,147	-	232,948	-	(312,199)
Conservation of natural resources	1,552,129	715,653	137,662	-	(698,814)
Economic development	1,143,337	32,524	345,759	226,394	(538,660)
Interest	166,181	-	-	-	(166,181)
Total Governmental Activities	**$ 55,086,080**	**$ 7,716,344**	**$ 19,144,616**	**$ 226,394**	**$ (27,998,726)**

General Revenues	
Property taxes	$ 26,270,613
Mortgage registry and deed tax	26,025
Transportation sales tax	1,837,278
Payments in lieu of tax	446,524
Grants and contributions not restricted to specific programs	3,009,768
Unrestricted investment earnings	883,541
Miscellaneous	126,915
Total general revenues	**$ 32,600,664**
Change in net position	**$ 4,601,938**
Net Position – Beginning	**9,528,319**
Net Position – Ending	**$ 14,130,257**

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

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

CARLTON COUNTY
CARLTON, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	General	Road and Bridge
Assets		
Cash and pooled investments	$ 17,590,571	$ 3,668,797
Petty cash and change funds	2,000	-
Taxes receivable		
Delinquent	444,352	87,823
Special assessments receivable		
Delinquent	39,407	-
Accounts receivable	114,545	-
Accrued interest receivable	210,398	-
Due from other funds	291,330	43,796
Due from other governments	590,219	3,280,627
Inventories	-	858,587
Prepaid items	1,715,708	-
Loans receivable	2,265,423	-
Total Assets	**$ 23,263,953**	**$ 7,939,630**
Liabilities, Deferred Inflows of Resources, and Fund Balances		
Liabilities		
Accounts payable	$ 251,397	$ 81,025
Salaries payable	679,634	162,870
Contracts payable	-	518,308
Due to other funds	42,997	-
Due to other governments	25,136	228,624
Unearned revenue	50,218	145,220
Total Liabilities	**$ 1,049,382**	**$ 1,136,047**
Deferred Inflows of Resources		
Unavailable revenue		
Taxes	$ 440,147	$ 81,301
Grants	161,433	2,461,157
Long-term receivables	-	-
Total Deferred Inflows of Resources	**$ 601,580**	**$ 2,542,458**

EXHIBIT 3

Human Services	Forfeited Tax	Debt Service	Total
$ 13,139,129	$ 387,610	$ 2,091,701	$ 36,877,808
6,400	-	-	8,400
234,610	-	33,933	800,718
-	-	-	39,407
-	839,371	-	953,916
-	-	-	210,398
-	-	-	335,126
2,219,283	-	-	6,090,129
-	-	-	858,587
-	-	-	1,715,708
-	-	-	2,265,423
$ 15,599,422	**$ 1,226,981**	**$ 2,125,634**	**$ 50,155,620**
$ 544,464	$ 6,764	$ -	$ 883,650
601,355	13,275	-	1,457,134
-	-	-	518,308
-	292,129	-	335,126
210,099	79,588	-	543,447
32,776	-	-	228,214
$ 1,388,694	**$ 391,756**	**$ -**	**$ 3,965,879**
$ 218,958	$ -	$ 31,324	$ 771,730
-	-	-	2,622,590
-	601,561	-	601,561
$ 218,958	**$ 601,561**	**$ 31,324**	**$ 3,995,881**

CARLTON COUNTY
CARLTON, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	General	Road and Bridge
Liabilities, Deferred Inflows of Resources, and Fund Balances (Continued)		
Fund Balances		
Nonspendable		
Inventories	$ -	$ 858,587
Prepaid items	1,715,708	-
Long-term loans	2,265,423	-
Missing heirs	25,765	-
Restricted		
Debt service	-	-
Law library	131,837	-
Recorder's technology equipment	166,193	-
Recorder's compliance	155,467	-
Prosecutorial purposes	29,235	-
Administering the carrying of weapons	90,215	-
Law enforcement	15,445	-
Timber development	274,391	-
Economic development	1,799,615	-
Highways and streets	-	456,705
Transportation sales tax	-	462,136
Assigned		
Highways and streets	-	2,483,697
Human services	-	-
Health	-	-
Forfeited tax	-	-
Unassigned	14,943,697	-
Total Fund Balances	**$ 21,612,991**	**$ 4,261,125**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 23,263,953**	**$ 7,939,630**

EXHIBIT 3
(Continued)

Human Services	Forfeited Tax	Debt Service	Total
$ -	$ -	$ -	$ 858,587
-	-	-	1,715,708
-	-	-	2,265,423
-	-	-	25,765
-	-	2,094,310	2,094,310
-	-	-	131,837
-	-	-	166,193
-	-	-	155,467
-	-	-	29,235
-	-	-	90,215
-	-	-	15,445
-	-	-	274,391
-	-	-	1,799,615
-	-	-	456,705
-	-	-	462,136
-	-	-	2,483,697
10,591,674	-	-	10,591,674
3,400,096	-	-	3,400,096
-	233,664	-	233,664
-	-	-	14,943,697
$ 13,991,770	**$ 233,664**	**$ 2,094,310**	**$ 42,193,860**
$ 15,599,422	**$ 1,226,981**	**$ 2,125,634**	**$ 50,155,620**

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EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION—GOVERNMENTAL ACTIVITIES DECEMBER 31, 2018

Fund balance – total governmental funds (Exhibit 3)		**$ 42,193,860**
Amounts reported for governmental activities in the statement of net position are different because:		
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds.		6,150,276
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources – unavailable revenue in the governmental funds.		3,995,881
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	$ (9,780,000)	
Bond premium	(254,987)	
Accrued interest payable	(76,719)	
Compensated absences	(3,631,667)	
Net pension liability	(16,124,885)	(29,868,258)
Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in governmental funds.		(8,341,502)
Net Position of Governmental Activities (Exhibit 1)		**$ 14,130,257**

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	General	Road and Bridge
Revenues		
Taxes	$ 14,932,010	$ 4,726,172
Special assessments	574,723	-
Licenses and permits	74,540	-
Intergovernmental	4,222,410	5,318,057
Charges for services	2,568,871	475,423
Fines and forfeits	47,954	-
Gifts and contributions	156,898	-
Investment earnings	873,574	9,967
Miscellaneous	691,544	403,610
Total Revenues	**$ 24,142,524**	**$ 10,933,229**
Expenditures		
Current		
General government	$ 8,918,228	$ -
Public safety	9,429,254	-
Highways and streets	-	11,278,047
Sanitation	1,777,659	-
Human services	-	-
Health	-	-
Culture and recreation	545,147	-
Conservation of natural resources	932,702	-
Economic development	1,143,337	-
Debt service		
Principal	-	-
Interest	-	-
Administrative charges	-	-
Total Expenditures	**$ 22,746,327**	**$ 11,278,047**
Excess of Revenues Over (Under) Expenditures	**$ 1,396,197**	**$ (344,818)**
Other Financing Sources (Uses)		
Transfers in	$ 201,330	$ -
Transfers out	(12,019)	-
Total Other Financing Sources (Uses)	**$ 189,311**	**$ -**
Net Change in Fund Balance	**$ 1,585,508**	**$ (344,818)**
Fund Balance – January 1	**20,027,483**	**4,524,049**
Increase (decrease) in inventories	**-**	**81,894**
Fund Balance – December 31	**$ 21,612,991**	**$ 4,261,125**

Human Services	Forfeited Tax	Debt Service	Total
$ 7,450,863	$ -	$ 1,023,688	$ 28,132,733
-	-	-	574,723
-	-	-	74,540
11,281,231	-	21,813	20,843,511
2,309,537	-	-	5,353,831
-	-	-	47,954
73,039	-	-	229,937
-	-	-	883,541
253,008	847,620	-	2,195,782
$ 21,367,678	**$ 847,620**	**$ 1,045,501**	**$ 58,336,552**
$ -	$ -	$ -	$ 8,918,228
-	-	-	9,429,254
-	-	-	11,278,047
-	-	-	1,777,659
18,783,397	-	-	18,783,397
1,587,206	-	-	1,587,206
-	-	-	545,147
-	610,698	-	1,543,400
-	-	-	1,143,337
-	-	810,000	810,000
-	-	189,255	189,255
-	-	2,450	2,450
$ 20,370,603	**$ 610,698**	**$ 1,001,705**	**$ 56,007,380**
$ 997,075	**$ 236,922**	**$ 43,796**	**$ 2,329,172**
$ 12,019	$ -	$ -	$ 213,349
-	(201,330)	-	(213,349)
$ 12,019	**$ (201,330)**	**$ -**	**$ -**
$ 1,009,094	**$ 35,592**	**$ 43,796**	**$ 2,329,172**
12,982,676	**198,072**	**2,050,514**	**39,782,794**
-	**-**	**-**	**81,894**
$ 13,991,770	**$ 233,664**	**$ 2,094,310**	**$ 42,193,860**

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT 6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES—GOVERNMENTAL ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2018

Net change in fund balance – total governmental funds (Exhibit 5)		**$ 2,329,172**
Amounts reported for governmental activities in the statement of activities are different because:		
In the funds, under the modified accrual basis, revenues not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment between the fund statements and the statement of activities is the increase or decrease in revenues deferred as unavailable.		
Unavailable revenue – December 31	$ 3,995,881	
Unavailable revenue – January 1	(2,768,774)	1,227,107
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal repayments		
General obligation bonds		810,000
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 accrued interest payable	$ 4,275	
Change in compensated absences	(90,712)	
Amortization of bond premium	21,249	
Change in inventories	81,894	
Change in net pension liability	3,438,965	
Change in deferred pension outflows	(2,388,976)	
Change in deferred pension inflows	(831,036)	235,659
Change in Net Position of Governmental Activities (Exhibit 2)		**$ 4,601,938**

FIDUCIARY FUNDS

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EXHIBIT 7

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2018

	Agency Funds
Assets	
Cash and pooled investments	**$ 2,030,259**
Liabilities	
Accounts payable	$ 84,961
Due to other governments	1,945,298
Total Liabilities	**$ 2,030,259**

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

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1. 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) as of and for the year ended December 31, 2018. 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.

Carlton County has not included capital assets or infrastructure, such as roads and bridges, in the government-wide financial statements as required by GASB Statement 34. Also, the County has not determined what its other postemployment benefits (OPEB) liability might be in order to include the liability in the government-wide financial statements as required by GASB Statement 75. These departures from GAAP are discussed in Notes 1.D.4. and 1.D.9. to the financial statements.

A. Financial Reporting Entity

Carlton County was established May 23, 1857, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Carlton County (primary government) and any component units for which the County is financially accountable. The County has no component units. 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/Treasurer, who is elected on a County-wide basis, serves as the clerk of the Board but has no vote.

Joint Ventures

The County participates in several joint ventures described in Note 4.D.

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about Carlton County.

These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately.

In the government-wide statement of net position, the governmental activities are presented on a consolidated basis and 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, except that Carlton County does not report capital assets and OPEB liability, as discussed in Notes 1.D.4. and 1.D.9., respectively.

The County's net position is reported in two parts: (1) restricted net position and (2) 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 clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues. The County has not recorded depreciation expense or eliminated the related capital expenditures or recognized any change in net OPEB obligations in the statement of activities as required by accounting principles generally accepted in the United States of America, as discussed in Notes 1.D.4. and 1.D.9.

1. 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, including its fiduciary 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.

The County reports the following major governmental funds:

- The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

- The Road and Bridge Special Revenue Fund is used to account for 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.

- The Human Services Special Revenue Fund is used to account for economic assistance and community social services programs.

- The Forfeited Tax Special Revenue Fund is used to account for proceeds from the sale or rental of lands forfeited to the State of Minnesota pursuant to Minn. Stat. ch. 282. The distribution of the net proceeds, after deducting the expenses of the County for managing the tax-forfeited lands, is governed by Minn. Stat. § 282.08. Title to the tax-forfeited lands remains with the state until sold by the County.

- The Debt Service Fund is used to account for the accumulation of resources for and the payment of principal, interest, and related costs of general long-term debt.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fiduciary fund type:

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

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the full 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. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Carlton County considers all revenues as available if collected within 90 days after the end of the current period, except for taxes, which have a 60-day accrual period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the County’s policy to use restricted resources first and then unrestricted resources as needed.

1. Summary of Significant Accounting Policies (Continued)

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 Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at fair value at December 31, 2018. A market approach is used to value all investments other than external investment pools, which are measured at the net asset value. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2018 were $883,541.

Carlton County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The investment in the pool is measured at the net asset value per share provided by the pool.

2. Receivables and Payables

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

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 May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments receivable.

1. Summary of Significant Accounting Policies

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

      2. Receivables and Payables (Continued)

Loans receivable consist of the outstanding balances of economic development loans to private enterprises and septic system repair loans to individuals. The funds used for the economic development loans are from the County's allocation of taconite production tax monies received through the Iron Range Resources and Rehabilitation Board. Funding for the septic system repair loans was from County sources.

No allowance for uncollectible receivables has been provided because such amounts are not expected to be material.

      3. Inventories and Prepaid Items

Road and Bridge Special Revenue Fund inventory consists of expendable supplies held for consumption and is valued at cost using the weighted-average cost 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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

      4. Capital Assets

GAAP require capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), to be reported in the governmental activities column in the government-wide financial statements. Capital assets that meet certain threshold criteria defined by the County are to be recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are to be recorded at the acquisition value. The assets are to be depreciated at the government-wide financial statement level.

1. Summary of Significant Accounting Policies

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

4. Capital Assets (Continued)

Carlton County has not reported its capital assets, including infrastructure, on the government-wide statement of net position. Also, no depreciation has been reported on capital assets in the government-wide statement of activities, and capital expenditures have not been removed from the statement of activities. These are departures from accounting principles generally accepted in the United States of America.

5. Unearned Revenue

Governmental funds and the government-wide statements report unearned revenue in connection with resources that have been received, but not yet earned.

6. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual 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. Compensated absences are liquidated by the General Fund and the Road and Bridge, Human Services, and Forfeited Tax Special Revenue Funds.

The County determines the current portion, if any, based on the anticipated retirements and any activity that occurs within the first few months of the subsequent year.

1. Summary of Significant Accounting Policies

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

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, differences between expected and actual pension plan economic experience, changes in actuarial assumptions, and pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources until that time. The County has two types of items, unavailable revenue and deferred pension inflows, that qualify for reporting in this category. Unavailable revenue arises only under the modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. Unavailable revenue is deferred and recognized as an inflow of resources in the period that the amounts became available. Deferred pension inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience, changes in actuarial assumptions, differences between projected and actual investment earnings on pension plan investments, and pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

1. Summary of Significant Accounting Policies

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

8. Pension Plan

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

The net pension liability is liquidated by the General Fund and the Road and Bridge, Human Services, and Forfeited Tax Special Revenue Funds.

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column of the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The County has not calculated its OPEB obligation in order to report the liability on the government-wide statement of net position. The change in the net OPEB obligation has not been reported in the government-wide statement of activities. These are departures from accounting principles generally accepted in the United States of America.

1. Summary of Significant Accounting Policies

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

10. Classification of Net Position

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

- 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.

11. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which Carlton County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

- Nonspendable – amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

- Restricted – amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

- Committed – amounts that can be used only for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

1. Summary of Significant Accounting Policies

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

   11. Classification of Fund Balances (Continued)

   - Assigned – amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Auditor/Treasurer, who has been delegated that authority by Board resolution.

   - Unassigned – the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

   Carlton County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

   12. 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 certain estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; and disclosure of contingent assets and liabilities 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.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliation of the County's total cash and investments to the basic financial statements follows:

Government-wide statement of net position		
Governmental activities		
Cash and pooled investments	$	36,886,208
Statement of fiduciary net position		
Cash and pooled investments		2,030,259
Total Cash and Investments	$	38,916,467

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit 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 and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a policy on custodial credit risk for deposits. As of December 31, 2018, the County's deposits were not exposed to custodial credit risk.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

The County may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

(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 Minn. Stat. § 118A.04, subd. 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 in 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.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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. It is the County's policy to not incur unreasonable risk in order to gain investment income. The County's goal is to maximize income, to preserve principal, and to maintain liquidity to meet the County's need for cash and timely payment of bills.

Credit Risk

Generally, 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 practice to invest only in instruments authorized by Minnesota statutes.

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 in the possession of an outside party. The County does not have a policy on custodial credit risk for investments. As of December 31, 2018, none of the County's investments were 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. The County's practice is to make investments which create diversification and avoid risk.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

The following table represents the County's deposit and investment balances at December 31, 2018, and information relating to potential investment risks:

	Credit Risk		Concentration Risk	Interest Rate Risk	
Investment Type	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	Carrying (Fair) Value
U.S. government agency securities					
Federal Home Loan Mortgage Corporation Note	Aaa/AA+	Moody's/S&P		06/29/2022	$ 123,529
Federal Home Loan Mortgage Corporation Note	Aaa/AA+	Moody's/S&P		04/27/2021	148,031
Federal Home Loan Mortgage Corporation Note	Aaa/AA+	Moody's/S&P		04/27/2022	124,039
Federal Home Loan Mortgage Corporation Note	Aaa/AA+	Moody's/S&P		02/01/2028	805
Total Federal Home Loan Mortgage Corporation Notes			<5%		$ 396,404
Federal Home Loan Bank	Aaa/AA+	Moody's/S&P	<5%	12/11/2020	$ 197,364
Federal National Mortgage Association	Aaa/AA+	Moody's/S&P	<5%	10/01/2025	$ 925
Negotiable certificates of deposit					
SmartBank	N/A	N/A	<5%	01/18/2019	$ 244,886
State Bank India	N/A	N/A	<5%	02/14/2019	244,863
Nationwide Bank	N/A	N/A	<5%	02/14/2019	244,847
Comenity Capital Bank	N/A	N/A	<5%	02/19/2019	244,793
Bryn Mawr Tr Co PA	N/A	N/A	<5%	02/19/2019	244,898
First Citrus Bank	N/A	N/A	<5%	02/20/2019	244,836
Pinnacle Bank	N/A	N/A	<5%	02/22/2019	244,828
Bank of Hope	N/A	N/A	<5%	02/28/2019	244,846
Citizens National Bank	N/A	N/A	<5%	03/08/2019	244,829
First Foundation Bank	N/A	N/A	<5%	03/14/2019	244,776
Customers Bank	N/A	N/A	<5%	03/15/2019	244,794
Union Bank	N/A	N/A	<5%	03/15/2019	244,798
Safra National Bank	N/A	N/A	<5%	03/19/2019	244,745
Bank India NY	N/A	N/A	<5%	03/20/2019	245,025
Great Western Bank	N/A	N/A	<5%	03/21/2019	245,023
Key Bank NA	N/A	N/A	<5%	03/22/2019	244,495
The Jefferson Bank	N/A	N/A	<5%	03/25/2019	244,465
Whitney Bank	N/A	N/A	<5%	04/22/2019	244,366
American Express Bank FSB	N/A	N/A	<5%	05/10/2019	244,203
Umpqua Bank	N/A	N/A	<5%	08/07/2019	244,149
Capital One Bank	N/A	N/A	<5%	08/16/2019	243,648
JP Morgan Chase Bank	N/A	N/A	<5%	09/30/2019	242,209
Wex Bank	N/A	N/A	<5%	11/22/2019	242,998
Community First Bank	N/A	N/A	<5%	12/16/2019	242,317
Mercantil Commerce Bank	N/A	N/A	<5%	12/23/2019	242,599
Bank of China NYC	N/A	N/A	<5%	12/27/2019	245,067
Hanmi Bank	N/A	N/A	<5%	02/18/2020	243,441

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Over 5 Percent of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
Negotiable certificates of deposit (Continued)					
First National Bank Omaha	N/A	N/A	<5%	02/21/2020	243,697
Investors Savings Bank	N/A	N/A	<5%	03/05/2020	243,768
Merrick Bank	N/A	N/A	<5%	03/09/2020	243,741
Everbank	N/A	N/A	<5%	03/27/2020	242,004
BMW North America	N/A	N/A	<5%	11/17/2020	240,462
Sallie Mae Bank	N/A	N/A	<5%	02/08/2021	242,136
Live Oak Banking Co	N/A	N/A	<5%	03/09/2021	242,210
Bankers Bank	N/A	N/A	<5%	03/22/2021	242,138
Third Federal Savings & Loan Bank	N/A	N/A	<5%	05/28/2021	241,495
Enerbank	N/A	N/A	<5%	01/28/2022	240,495
Two River Community Bank	N/A	N/A	<5%	02/28/2022	240,231
Summit Community Bank Inc	N/A	N/A	<5%	03/16/2022	239,708
BMO Harris Bank NA	N/A	N/A	<5%	03/21/2022	241,562
Synchrony Bank	N/A	N/A	<5%	02/23/2023	237,763
Belmont Savings Bank	N/A	N/A	<5%	02/28/2023	237,686
Wells Fargo Bank	N/A	N/A	<5%	02/28/2023	236,211
Morgan Stanley Bank NA	N/A	N/A	<5%	03/01/2023	238,659
Bank of Delmarva	N/A	N/A	<5%	03/16/2023	237,549
UBS Bank	N/A	N/A	<5%	04/30/2019	244,721
Community West Bank	N/A	N/A	<5%	06/13/2019	244,645
Washington Fed Bank	N/A	N/A	<5%	06/14/2019	244,677
People’s United Bank	N/A	N/A	<5%	01/03/2019	244,998
Frandsen Bank & Trust	N/A	N/A	<5%	01/03/2019	244,998
Total negotiable certificates of deposit					$ 12,152,298
Investment pools/mutual funds					
MAGIC Fund	N/A	N/A	66.8%	N/A	$ 25,654,194
Total investments					$ 38,401,185
Deposits and non-negotiable certificates of deposit					506,882
Petty cash					8,400
Total Cash and Investments					$ 38,916,467

N/A – Not Applicable
S&P – Standard & Poor’s
<5% – Concentration is less than 5% of investments

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

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

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

	December 31, 2018	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
Federal Home Loan Mortgage Corporation Discount Notes	$ 396,404	$ -	$ 396,404	$ -
Federal Home Loan Bank	197,364	-	197,364	-
Federal National Mortgage Association	925	-	925	-
Negotiable certificates of deposit	12,152,298	-	12,152,298	-
Total Investments by Fair Value Hierarchy	$ 12,746,991	$ -	$ 12,746,991	$ -
Investments measured at the net asset value (NAV)				
MAGIC Portfolio	$ 14,474,079			
MAGIC Term	11,180,115			
Total investments measured at the NAV	$ 25,654,194			
Total Investments	$ 38,401,185			

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

All Level 2 debt securities are valued using a matrix pricing technique based on the securities' relationship to benchmark quoted prices.

MAGIC is a local government investment pool which is quoted at a net asset value (NAV). The County invests in this pool for the purpose of the joint investment of the County's money with those of other counties to enhance the investment earnings accruing to each member. The MAGIC Fund currently consists of the MAGIC Portfolio and the MAGIC Term Series.

MAGIC Portfolio is valued using amortized cost. Shares of the MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the County has a sufficient number of shares to meet their redemption request. The Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a Portfolio's securities or determination of its NAV not reasonably practical.

Shares of MAGIC Term Series are purchased to mature upon pre-determined maturity dates selected by the County at the time of purchase. Should the County need to redeem shares in a MAGIC Term Series prematurely, they must provide notice at least seven days prior to the premature redemption date. The value of a premature redemption is equal to the original price for such share, plus dividends thereon, at the projected yield, less such share's allocation of any losses incurred by the series, less a premature redemption penalty, if any.

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2018, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	$ 800,718	$ -
Special assessments	39,407	-
Accounts	953,916	-
Accrued interest	210,398	-
Due from other governments	6,090,129	-
Loans receivable	2,265,423	2,083,131
Total Governmental Activities	$ 10,359,991	$ 2,083,131

Loans receivable represent amounts owed from private/public enterprises within the County for economic development and from individuals for septic system repair. The revolving loan fund activity is included in the General Fund. At year-end, the County had 50 loans with balances outstanding. Scheduled collections on these loans range from one to nine years.

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

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

Receivable Fund	Payable Fund	Amount	Purpose
General	Forfeited Tax	$ 291,330	Forfeited tax apportionment and payment of fees
Road and Bridge	General	$ 42,997	Reimburse supplies and services
	Forfeited Tax	799	Reimburse supplies and services
Total due to Road and Bridge Fund		$ 43,796	
Total Due To/From Other Funds		$ 335,126	

2. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2018, consisted of the following:

Interfund Transfers	Amount	Purpose
Transfers to Human Services Fund from General Fund	$ 12,019	Collection of Title IV-D funds
Transfers to General Fund from Forfeited Tax Fund	201,330	Forfeited tax apportionment
Total Interfund Transfers	$ 213,349	

C. Liabilities

1. Payables

Payables at December 31, 2018, were as follows:

	Governmental Activities
Accounts	$ 883,650
Salaries	1,457,134
Contracts	518,308
Due to other governments	543,447
Total Payables	$ 3,402,539

2. Other Postemployment Benefits – Retirees

The County provides post-retirement health care benefits for retired permanent full-time employees from age 55 to age 65 and their authorized dependents. The authority to provide this benefit is established in Minn. Stat. § 471.61, subd. 2a. The percentage of the premium paid varies depending on the years of service. As of year-end, the County has 44 eligible participants. The County finances the plan on a pay-as-you-go basis. Premiums are charged to the department from which the employee retired. During 2018, the County expended $525,650 for these benefits.

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Bonds Payable

Bond payments are typically made from the Debt Service Fund. Information on individual bonds payable follows:

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2018
2012A G.O. Capital Improvement Refunding Bonds	2021	$250,000 – $560,000	0.40 – 1.50	$ 4,010,000	$ 1,645,000
2016A G.O. Capital Improvement Refunding Bonds	2030	$215,000 – $900,000	2.00	8,620,000	8,135,000
Total				$ 12,630,000	$ 9,780,000
Plus: unamortized premium					254,987
Total General Obligation Bonds, Net					$ 10,034,987

4. Debt Service Requirements

Debt service requirements at December 31, 2018, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds Principal	General Obligation Bonds Interest
2019	$ 815,000	$ 178,405
2020	840,000	166,193
2021	855,000	152,550
2022	590,000	139,500
2023	590,000	127,700
2024 – 2028	4,310,000	392,800
2029 – 2030	1,780,000	35,800
Total	$ 9,780,000	$ 1,192,948

2. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	$ 10,590,000	$ -	$ 810,000	$ 9,780,000	$ 815,000
Bond premium	276,236	-	21,249	254,987	-
Compensated absences	3,540,955	3,380,034	3,289,322	3,631,667	-
Governmental Activities Long-Term Liabilities	$ 14,407,191	$ 3,380,034	$ 4,120,571	$ 13,666,654	$ 815,000

D. Pension Plans

1. Defined Benefit Pension Plans

a. Plan Description

All full-time and certain part-time employees of Carlton County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan (the General Employees Plan), the Public Employees Police and Fire Plan (the Police and Fire Plan), and the Public Employees Local Government Correctional Service Retirement Plan (the Correctional Plan), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

The General Employees Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement

2. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

a. Plan Description (Continued)

Fund was closed to new members during 1978 and merged into the General Employees Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No Carlton County employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Police and Fire Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a prorated basis starting with 50 percent after five years and increasing ten percent for each year of service until fully vested after ten years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years and increasing 5.00 percent for each year of service until fully vested after 20 years.

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Correctional Plan (accounted for in the Correctional Fund). For members hired after June 30, 2010, benefits vest on a prorated basis starting with 50 percent after five years and increasing ten percent for each year of service until fully vested after ten years.

b. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Plan and Police and Fire Plan benefit recipients receive a future annual 1.00 percent for the post-retirement benefit increase, while Correctional Plan benefit

2. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

b. Benefits Provided (Continued)

recipients receive 2.50 percent. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will be 2.50 percent. If, after reverting to a 2.50 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.00 percent.

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

Benefits are based on a member's highest average salary for any 60 consecutive months of allowable service, age, and years of credit at termination of service. In the General Employees Plan, two methods are used to compute benefits for Coordinated Plan members. Members hired prior to July 1, 1989, receive 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 Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. For Police and Fire Plan members, the annuity accrual rate is 3.00 percent of average salary for each year of service. For Correctional Plan members, the annuity accrual rate is 1.90 percent of average salary for each year of service.

For General Employees Plan 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. For Police and Fire Plan and Correctional Plan members, normal retirement age is 55, and for members who were hired prior to July 1, 1989, a full annuity

2. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

b. Benefits Provided (Continued)

is available when age plus years of service equal 90. Disability benefits are available for vested members and are based on years of service and average high-five salary.

c. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Plan members were required to contribute 6.50 percent of their annual covered salary in 2018. Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2018. Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2018.

In 2018, the County was required to contribute the following percentages of annual covered salary:

General Employees Plan – Coordinated Plan members	7.50%
Police and Fire Plan	16.20
Correctional Plan	8.75

The employee and employer contribution rates did not change from the previous year.

The County's contributions for the year ended December 31, 2018, to the pension plans were:

General Employees Plan	$	1,292,250
Police and Fire Plan		341,085
Correctional Plan		86,975

The contributions are equal to the contractually required contributions as set by state statute.

2. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans (Continued)

d. Pension Costs

General Employees Plan

At December 31, 2018, the County reported a liability of $14,002,118 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportion was 0.2524 percent. It was 0.2463 percent measured as of June 30, 2017. The County recognized pension expense of $1,461,542 for its proportionate share of the General Employees Plan's pension expense.

The County also recognized $107,115 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute $16 million to the General Employees Plan for the fiscal years ended June 30, 2018 and 2019, and $6 million thereafter, through calendar year 2031.

The County's proportionate share of the net pension liability	$	14,002,118
State of Minnesota's proportionate share of the net pension liability associated with the County		459,331
Total	$	14,461,449

2. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

General Employees Plan (Continued)

The County reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 362,056	$ 389,774
Changes in actuarial assumptions	1,276,615	1,547,261
Difference between projected and actual investment earnings	-	1,459,699
Changes in proportion	511,292	32,389
Contributions paid to PERA subsequent to the measurement date	652,160	-
Total	$ 2,802,123	$ 3,429,123

The $652,160 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2019	$ 594,169
2020	(558,813)
2021	(1,022,267)
2022	(292,249)

2. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs (Continued)

Police and Fire Plan

At December 31, 2018, the County reported a liability of $2,042,259 for its proportionate share of the Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportion was 0.1916 percent. It was 0.1810 percent measured as of June 30, 2017. The County recognized pension expense of $255,646 for its proportionate share of the Police and Fire Plan's pension expense.

The County also recognized $17,244 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Police and Fire Plan. Legislation requires the State of Minnesota to contribute $9 million to the Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

The County reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Police and Fire Plan (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 79,679	$ 481,951
Changes in actuarial assumptions	2,464,825	2,843,924
Difference between projected and actual investment earnings	-	412,432
Changes in proportion	156,949	133,773
Contributions paid to PERA subsequent to the measurement date	175,901	-
Total	$ 2,877,354	$ 3,872,080

The $175,901 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2019	$ (23,845)
2020	(112,932)
2021	(264,140)
2022	(786,826)
2023	17,116

2. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs (Continued)

Correctional Plan

At December 31, 2018, the County reported a liability of $80,508 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportion was 0.4895 percent. It was 0.4900 percent measured as of June 30, 2017. The County recognized pension expense of ($91,472) for its proportionate share of the Correctional Plan's pension expense.

The County reported its proportionate share of the Correctional Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 4,162	$ 8,614
Changes in actuarial assumptions	349,123	931,029
Difference between projected and actual investment earnings	-	99,587
Changes in proportion	73,835	1,069
Contributions paid to PERA subsequent to the measurement date	43,679	-
Total	$ 470,799	$ 1,040,299

2. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Correctional Plan (Continued)

The $43,679 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2019	$ 39,516
2020	(324,665)
2021	(311,162)
2022	(16,868)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2018, was $1,625,716.

e. Actuarial Assumptions

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

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

2. Detailed Notes on All Funds

   D. Pension Plans

      1. Defined Benefit Pension Plans

         e. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.25 percent for the General Employees Plan and 2.00 percent for the Correctional Plan. For the Police and Fire Plan, cost of living benefit increases for retirees are 1.00 percent as set by state statute.

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 30, 2015. The experience study for the Police and Fire Plan was dated August 30, 2016. The experience study for the Correctional Plan was dated February 2012. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The long-term expected rate of return on pension plan investments is 7.50 percent. 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:

2. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

e. Actuarial Assumptions (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	36%	5.10%
International stocks	17	5.30
Bonds (fixed income)	20	0.75
Alternative assets (private markets)	25	5.90
Cash	2	0.00

f. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2018, which remained consistent with 2017. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Plan, the Police and Fire Plan, and the Correctional Plan were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

g. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2018:

General Employees Plan

- The mortality projection scale was changed from MP-2015 to MP-2017.

- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.

2. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

g. Changes in Actuarial Assumptions (Continued)

Police and Fire Plan

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

- Post-retirement benefit increases changed to 1.00 percent for all years, with no trigger.

- An end date of July 1, 2048, was added to the existing $9.0 million state contribution. Additionally, annual state aid will equal $4.5 million in fiscal years 2019 and 2020, and $9.0 million thereafter, until the plan reaches 100 percent funding, or July 1, 2048, if earlier.

- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019, and January 1, 2020, from 16.20 percent to 16.95 and 17.70 percent of pay, respectively. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.

- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.

- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

Correctional Plan

- The single discount rate was changed from 5.96 percent per annum to 7.50 percent per annum.

2. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

g. Changes in Actuarial Assumptions

Correctional Plan (Continued)

- The mortality projection scale was changed from MP-2016 to MP-2017.
- The assumed post-retirement benefit increase was changed from 2.50 percent per year to 2.00 percent per year.

h. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	Proportionate Share of the General Employees Plan Discount Rate	General Employees Plan Net Pension Liability	Police and Fire Plan Discount Rate	Police and Fire Plan Net Pension Liability	Correctional Plan Discount Rate	Correctional Plan Net Pension Liability
1% Decrease	6.50%	$ 22,755,233	6.50%	$ 4,378,731	6.50%	$ 689,010
Current	7.50	14,002,118	7.50	2,042,259	7.50	80,508
1% Increase	8.50	6,776,670	8.50	110,093	8.50	(406,275)

i. Pension Plan Fiduciary Net Position

Detailed information about the 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; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

2. Detailed Notes on All Funds

D. Pension Plans (Continued)

2. Defined Contribution Plan

Four County Commissioners of Carlton County are covered by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the state legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by Carlton County during the year ended December 31, 2018, were:

	Employee	Employer
Contribution amount	$ 5,570	$ 5,570
Percentage of covered payroll	5.00%	5.00%

3. Postemployment Health Care

A. MSRS Health Care Savings Plan

Carlton County employees participate in a Health Care Savings Plan (HCSP) administered by the Minnesota State Retirement System (MSRS). The plan is authorized under Minn. Stat. § 352.98 and through an Internal Revenue Service (IRS) private letter ruling establishing the HCSP as a tax-exempt benefit as of July 29, 2002.

3. Postemployment Health Care

A. MSRS Health Care Savings Plan (Continued)

The plan is open to any active public employees in Minnesota if they are covered under certain public service retirement plans.

Under the terms of the HCSP, employees are allowed to save money, tax-free, to use upon termination of employment to pay for eligible health care expenses. The IRS private letter ruling requires mandatory participation of all employees in each bargaining unit in order to gain tax-free benefits. Allowable amounts deposited into individual accounts must be negotiated by each individual bargaining unit and the employer. The plan must be written into the collective bargaining agreement or a Memo of Understanding. For those employees not covered by a bargaining unit, amounts to be deposited into individual accounts must be agreed to by the employer and included in a written personnel policy.

Under Carlton County's plan, both unionized and non-represented employees are required to contribute, at retirement, 50 or 100 percent of their eligible unused sick time into their HCSP account, depending on the employees' bargaining agreement.

B. Northland VEBA Trust Plan

In 2005, the Carlton County Board of Commissioners approved a Voluntary Employees' Beneficiary Association (VEBA) plan for funding employee health benefits as authorized under Sections 501(c)(9) and 213(d) of the IRS code. The VEBA plan is a health reimbursement plan providing for individual employer-funded accounts that can be used to help pay eligible medical expenses incurred by participating employees. The plan is used in combination with a high-deductible health plan. Funding is provided through pre-tax contributions from Carlton County based on employee health care elections. The VEBA plan is administered by Compensation Consultants, Ltd.

The current maximum County contribution for active employees consists of 100 percent of the employee deductible amount for all employees enrolled in County health care coverage and 80 percent of the dependent deductible. Any balance remaining in an employee's account at year-end rolls over into the subsequent year.

Eligibility requirements include:

- be an active employee or retiree of a public entity,

3. Postemployment Health Care

B. Northland VEBA Trust Plan (Continued)

- active employees must have a high-deductible health plan, and
- be a member of a bargaining unit that has approved the VEBA plan.

4. Summary of Significant Contingencies and Other Items

A. 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 for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County's group health insurance is through the Northeast Service Cooperative (NESC). For other risks, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

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

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

The County belongs to the NESC, a joint powers entity which sponsors a plan to provide group employee health benefits to its participating members. All members pool premiums and losses; however, a particular member may receive increases or

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

decreases depending on a good or bad year of claims experience. Premiums are determined annually by the NESC and are based partially on the experience of the County and partially on the experience of the group. The NESC solicits proposals from carriers and negotiates the contracts.

B. 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 is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

Enbridge, Inc., and Northern Natural Gas are currently challenging tax valuations for the years 2012 through 2017 through litigation, which may affect several Minnesota counties, and could require counties to pay back significant amounts of taxes previously collected. For tax valuations for 2012, 2013, and 2014, these cases are pending judgement. The tax years of 2015, 2016, and 2017 are in the pre-trial stage. Any loss to Carlton County is dependent on the outcome of the lawsuits. The amount of potential loss cannot be determined at this time. The County may be subject to a loss up to $2,000,000 in future tax revenue.

C. Conduit Debt

On February 10, 2015, the Carlton County Board of Commissioners approved a request from Augustana Mercy Care Center, LLC, and Augustana Oakview Care, LLC, for the County to issue $5,805,000 in revenue bonds, pursuant to the Minnesota Municipal Industrial Development Act, Minn. Stat. §§ 469.152 through 469.165, as amended. The proceeds from the bonds were used to finance the acquisition and improvement of the Oakview Care Facilities ($4,220,000) and the acquisition and installation of equipment

4. Summary of Significant Contingencies and Other Items

C. Conduit Debt (Continued)

in the Augustana Mercy Care Facilities ($1,585,000). Both facilities are located in the City of Moose Lake. The bonds are secured by the properties financed and are payable solely from the revenues of Augustana Mercy Care Center, LLC, and Augustana Oakview Care, LLC. The County is not obligated in any manner for repayment of the bonds. The bonds were issued on March 2, 2015. As of December 31, 2018, the outstanding principal balance was $5,280,000.

D. Joint Ventures

Arrowhead Regional Corrections

The County, in a joint powers agreement pursuant to Minn. Stat. § 471.59, participates with Cook, Koochiching, Lake, and St. Louis Counties in Arrowhead Regional Corrections, which was established pursuant to the Community Corrections Act, Minn. Stat. §§ 401.01-.16.

Arrowhead Regional Corrections comprises three major divisions: juvenile institutional services, adult institutional services, and court and field services. These divisions are composed of the five participating counties' probation departments, the Arrowhead Juvenile Detention Center, and the Northeast Regional Corrections Center.

Arrowhead Regional Corrections is governed by an eight-member Board composed of one member appointed from each of the participating counties' Boards of Commissioners, except for St. Louis County, which has three members appointed by its Board. In addition, the right to have an additional member is annually rotated among Carlton, Cook, Koochiching, and Lake Counties. Arrowhead Regional Corrections is financed through state grants and contributions from the participating counties. Carlton County provided $1,929,579 in funding in 2018.

Separate financial information can be obtained from:

Arrowhead Regional Corrections
211 West Second Street, Suite 450
Duluth, Minnesota 55802

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Carlton County Children and Family Service Collaborative

The Carlton County Children and Family Service Collaborative was established pursuant to Minn. Stat. § 124D.23. The Collaborative includes Carlton County; the Independent School Districts of Barnum, Carlton, Cloquet, Cromwell, Esko, Moose Lake, and Wrenshall; Lakes and Pines Community Action Agency; Cloquet Area Special Education Cooperative; Fond du Lac Reservation Tribal Council; Arrowhead Regional Corrections; and the Human Development Center.

The purpose of the Collaborative is to create a community environment and service network that promotes family health, stability, and self-sufficiency through an easily accessible integrated human service delivery system.

Control of the Collaborative is vested in a Board of Directors. Carlton County has two members on the Board. Financing is provided by state and local grants, appropriations from Collaborative members, and miscellaneous revenues. Carlton County is the fiscal agent for the Collaborative and handles all of the financial transactions for this organization. Financial information for the Collaborative for the fiscal year ended December 31, 2018, is accounted for in an agency fund of Carlton County.

Carlton, Cook, Lake, and St. Louis Community Health Board

Carlton, Cook, Lake, and St. Louis Counties entered into a joint powers agreement, creating and operating the Carlton, Cook, Lake, and St. Louis Community Health Board. This agreement was entered into January 1, 1977, and is established pursuant to Minn. Stat. § 471.59.

The Community Health Board is composed of nine members. The Carlton, Cook, and Lake County Boards of Commissioners each appoint two members; the St. Louis County Board of Commissioners appoints three members. Financing is obtained through federal and state grants. Carlton County provided no funding to this organization in 2018.

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Carlton, Cook, Lake, and St. Louis Community Health Board (Continued)

Separate financial information can be obtained from:

Carlton, Cook, Lake, and St. Louis Community Health Board
404 West Superior Street, Suite 220
Duluth, Minnesota 55802

Northeast Minnesota Office of Job Training

Aitkin, Carlton, Cook, Itasca, Koochiching, Lake, and St. Louis Counties (excluding the City of Duluth) entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of developing and implementing a private and public job training program. The United States Congress, through the Job Training Partnership Act of 1982, authorized states to establish "service delivery areas" to provide programs to achieve full employment through the use of grants. The counties identified above are defined as a service delivery area, and the Northeast Minnesota Office of Job Training is designated as the grant recipient and administrator for the service delivery area. Carlton County is not a funding mechanism for this organization.

The governing body is composed of seven members, one member from the Board of Commissioners of each of the participating counties.

Separate financial information can be obtained from:

Northeast Minnesota Office of Job Training
820 North 9th Street, Suite 210
Virginia, Minnesota 55792

Minnesota Counties Information Systems (MCIS)

Aitkin, Carlton, Cass, Chippewa, Cook, Crow Wing, Dodge, Itasca, Koochiching, Lac qui Parle, Lake, Sherburne, and St. Louis Counties entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of operating and maintaining data processing facilities and management information systems for use by its members.

4. Summary of Significant Contingencies and Other Items

   D. Joint Ventures

Minnesota Counties Information Systems (MCIS) (Continued)

MCIS is governed by a 13-member Board, composed of a member appointed by each of the participating county's Board of Commissioners. Financing is obtained through user charges to the members. Cass County is the fiscal agent for MCIS.

Each county's share of the assets and liabilities cannot be accurately determined since it will depend on the number of counties that are members when the agreement is dissolved.

Separate financial information can be obtained from:

Minnesota Counties Information Systems
413 Southeast 7th Avenue
Grand Rapids, Minnesota 55744

Arrowhead Health Alliance

Carlton, Cook, Koochiching, and Lake Counties entered into a joint powers agreement, pursuant to Minn. Stat. §§ 471.59 and 256B.692, for the purpose of organizing, governing, planning, and administering a county-based purchasing entity to participate in prepaid health care programs through the Minnesota Department of Human Services and the federal Centers for Medicare and Medicaid Services. In 2012, St. Louis County joined the Arrowhead Health Alliance.

Control of the Arrowhead Health Alliance is vested in a Board of Directors composed of one representative from each of the member counties. Lake County is the fiscal agent for the Arrowhead Health Alliance. The Arrowhead Health Alliance is accounted for in an agency fund of Lake County.

Carlton County contributed $252,397 in start-up funds to the Arrowhead Health Alliance in 2007. Carlton County provided $6,865 in funding in 2018.

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Northeast Minnesota Regional Radio Board

The Northeast Minnesota Regional Radio Board was established through a joint powers agreement, pursuant to Minn. Stat. §§ 471.59 and 403.39, to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) and to enhance and improve interoperable public safety communications.

The joint powers are the Counties of Aitkin, Carlton, Cass, Cook, Crow Wing, Itasca, Kanabec, Koochiching, Lake, Pine, and St. Louis, and the Cities of Duluth, Hibbing, International Falls, and Virginia. Control of the Northeast Minnesota Regional Radio Board is vested in a Board of Directors composed of one County Commissioner from each of the member counties and one City Council member from each of the member cities. In addition, there is one member from the Northeast Minnesota Regional Advisory Committee, one member from the Northeast Minnesota Regional Radio System User Committee, and one member from the Northeast Minnesota Owners and Operators Committee who are also voting members of the Board.

Itasca County is the fiscal agent for the Northeast Minnesota Regional Radio Board. Funding is provided by grants and contributions from participating members. Carlton County contributed no funding in 2018.

Separate financial information can be obtained from:

Itasca County
123 Northeast 4th Street
Grand Rapids, Minnesota 55744-2847

Region Two – Northeast Minnesota Homeland Security Emergency Management Organization

The Region Two – Northeast Minnesota Homeland Security Emergency Management Organization was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the region. Control is

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Region Two – Northeast Minnesota Homeland Security Emergency Management Organization (Continued)

vested in the Board, which is composed of representatives appointed by each Board of County Commissioners. Carlton County's responsibility does not extend beyond making this appointment.

Minnesota Criminal Justice Data Communications Network

The Minnesota Criminal Justice Data Communications Network Joint Powers Agreement exists to create access for the County Sheriff and County Attorney to systems and tools available from the State of Minnesota, Department of Public Safety, and the Bureau of Criminal Apprehension to carry out criminal justice. During the year, Carlton County made no payments to the joint powers.

E. Tax-Forfeited Land

The County manages approximately 72,000 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.

F. Carlton County Economic Development Authority

In May 2008, the Carlton County Board passed a resolution establishing the Carlton County Economic Development Authority (EDA) having the powers and duties of an economic development authority under Minn. Stat. §§ 469.090-469.1081 and of a housing authority under Minn. Stat. §§ 469.001-469.047. The Carlton County EDA bylaws were adopted on February 9, 2010, and the EDA's Board was appointed on March 9, 2010.

The EDA currently operates as a department of Carlton County's General Fund, and has not officially organized as a separate, legal entity. The EDA consists of a nine-member Board, which serves in an advisory capacity to the Carlton County Board of Commissioners, and two County Commissioners are appointed to the EDA Board.

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REQUIRED SUPPLEMENTARY INFORMATION

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CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT A-1

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 15,489,574	$ 15,489,574	$ 14,932,010	$ (557,564)
Special assessments	575,000	575,000	574,723	(277)
Licenses and permits	73,575	73,575	74,540	965
Intergovernmental	4,820,605	5,024,461	4,222,410	(802,051)
Charges for services	2,172,783	2,172,783	2,568,871	396,088
Fines and forfeits	45,000	45,000	47,954	2,954
Gifts and contributions	124,950	124,950	156,898	31,948
Investment earnings	192,350	192,350	873,574	681,224
Miscellaneous	785,127	1,110,172	691,544	(418,628)
Total Revenues	**$ 24,278,964**	**$ 24,807,865**	**$ 24,142,524**	**$ (665,341)**
Expenditures				
Current				
General government				
Commissioners	$ 483,885	$ 483,885	$ 358,041	$ 125,844
Restorative justice	212,069	218,471	190,400	28,071
Courts	158,328	158,328	241,924	(83,596)
County auditor	1,438,204	1,438,204	1,191,130	247,074
License bureau	408,080	408,080	403,535	4,545
County assessor	830,172	830,172	836,884	(6,712)
Personnel	503,222	503,222	514,733	(11,511)
Data processing	1,344,803	1,344,803	1,178,181	166,622
Attorney	1,385,006	1,385,006	1,279,476	105,530
Law library	35,000	35,000	43,278	(8,278)
Recorder	559,072	836,436	672,822	163,614
Surveyor	15,000	15,000	15,000	-
Planning and zoning	454,483	454,483	438,088	16,395
Maintenance	1,013,077	1,029,077	1,056,206	(27,129)
Veterans service officer	327,584	327,584	307,017	20,567
Community and family services	214,328	216,328	191,513	24,815
Total general government	**$ 9,382,313**	**$ 9,684,079**	**$ 8,918,228**	**$ 765,851**

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

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT A-1
(Continued)

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 3,686,115	$ 3,716,115	$ 3,764,480	$ (48,365)
Snowmobile safety	4,579	4,579	4,066	513
Boat and water safety	7,216	7,216	45,657	(38,441)
Ambulance	85,350	85,350	85,350	-
Animal control	50,000	50,000	50,000	-
Coroner	88,000	88,000	98,088	(10,088)
E-911	1,247,331	1,247,331	1,137,854	109,477
County jail	2,217,136	2,227,158	2,097,863	129,295
Community corrections	1,931,375	1,931,375	1,924,183	7,192
Court services	117,210	117,210	113,913	3,297
Civil defense	125,369	125,369	107,800	17,569
Total public safety	**$ 9,559,681**	**$ 9,599,703**	**$ 9,429,254**	**$ 170,449**
Sanitation				
Solid waste	$ 1,471,379	$ 1,471,379	$ 1,568,775	$ (97,396)
Recycling	235,767	235,767	208,884	26,883
Total sanitation	**$ 1,707,146**	**$ 1,707,146**	**$ 1,777,659**	**$ (70,513)**
Culture and recreation				
Historical society	$ 47,000	$ 47,000	$ 47,000	$ -
County fair	37,750	37,750	37,750	-
Parks	84,886	288,742	308,753	(20,011)
Regional library	152,490	152,490	151,644	846
Total culture and recreation	**$ 322,126**	**$ 525,982**	**$ 545,147**	**$ (19,165)**
Conservation of natural resources				
County extension	$ 511,542	$ 522,542	$ 504,354	$ 18,188
Soil and water conservation	152,715	152,715	152,715	-
Weed inspector	7,793	7,793	8,054	(261)
Timber development	30,000	30,000	32,793	(2,793)
Resource development	46,000	46,000	64,062	(18,062)
Water planning	180,263	180,263	162,433	17,830
Other conservation	7,600	7,600	8,291	(691)
Total conservation of natural resources	**$ 935,913**	**$ 946,913**	**$ 932,702**	**$ 14,211**

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

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT A-1
(Continued)

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Economic development				
Airport commission	$ 1,968,589	$ 1,968,589	$ 434,412	$ 1,534,177
Rail authority	3,100	3,100	4,100	(1,000)
Arrowhead Regional Development	55,550	55,550	-	55,550
Iron Range Resources and Rehabilitation Board	526,154	851,199	704,825	146,374
Total economic development	**$ 2,553,393**	**$ 2,878,438**	**$ 1,143,337**	**$ 1,735,101**
Total Expenditures	**$ 24,460,572**	**$ 25,342,261**	**$ 22,746,327**	**$ 2,595,934**
Excess of Revenues Over (Under) Expenditures	**$ (181,608)**	**$ (534,396)**	**$ 1,396,197**	**$ 1,930,593**
Other Financing Sources (Uses)				
Transfers in	$ 137,522	$ 137,522	$ 201,330	$ 63,808
Transfers out	-	-	(12,019)	(12,019)
Total Other Financing Sources (Uses)	**$ 137,522**	**$ 137,522**	**$ 189,311**	**$ 51,789**
Net Change in Fund Balance	**$ (44,086)**	**$ (396,874)**	**$ 1,585,508**	**$ 1,982,382**
Fund Balance – January 1	**20,027,483**	**20,027,483**	**20,027,483**	**-**
Fund Balance – December 31	**$ 19,983,397**	**$ 19,630,609**	**$ 21,612,991**	**$ 1,982,382**

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

EXHIBIT A-2

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 5,664,297	$ 5,664,297	$ 4,726,172	$ (938,125)
Intergovernmental	5,142,133	5,142,133	5,318,057	175,924
Charges for services	482,000	482,000	475,423	(6,577)
Investment earnings	-	-	9,967	9,967
Miscellaneous	262,330	262,330	403,610	141,280
Total Revenues	**$ 11,550,760**	**$ 11,550,760**	**$ 10,933,229**	**$ (617,531)**
Expenditures				
Current				
Highways and streets				
Administration	$ 726,634	$ 726,634	$ 764,973	$ (38,339)
Maintenance	3,391,059	3,391,059	3,567,090	(176,031)
Construction	5,770,433	5,770,433	5,287,705	482,728
Equipment maintenance and shop	1,662,634	1,662,634	1,658,279	4,355
Total Expenditures	**$ 11,550,760**	**$ 11,550,760**	**$ 11,278,047**	**$ 272,713**
Net Change in Fund Balance	**$ -**	**$ -**	**$ (344,818)**	**$ (344,818)**
Fund Balance – January 1	**4,524,049**	**4,524,049**	**4,524,049**	**-**
Increase (decrease) in inventories	**-**	**-**	**81,894**	**81,894**
Fund Balance – December 31	**$ 4,524,049**	**$ 4,524,049**	**$ 4,261,125**	**$ (262,924)**

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

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT A-3

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 7,641,051	$ 7,641,051	$ 7,450,863	$ (190,188)
Intergovernmental	10,568,226	10,568,226	11,281,231	713,005
Charges for services	1,743,826	1,743,826	2,309,537	565,711
Gifts and contributions	76,659	76,659	73,039	(3,620)
Miscellaneous	291,500	291,500	253,008	(38,492)
Total Revenues	**$ 20,321,262**	**$ 20,321,262**	**$ 21,367,678**	**$ 1,046,416**
Expenditures				
Current				
Human services				
Income maintenance	$ 5,294,327	$ 5,294,327	$ 5,190,480	$ 103,847
Social services	13,632,597	13,632,597	13,592,917	39,680
Total human services	**$ 18,926,924**	**$ 18,926,924**	**$ 18,783,397**	**$ 143,527**
Health	1,642,377	1,642,377	1,587,206	55,171
Total Expenditures	**$ 20,569,301**	**$ 20,569,301**	**$ 20,370,603**	**$ 198,698**
Excess of Revenues Over (Under) Expenditures	**$ (248,039)**	**$ (248,039)**	**$ 997,075**	**$ 1,245,114**
Other Financing Sources (Uses)				
Transfers in	13,400	13,400	12,019	(1,381)
Net Change in Fund Balance	**$ (234,639)**	**$ (234,639)**	**$ 1,009,094**	**$ 1,243,733**
Fund Balance – January 1	**12,982,676**	**12,982,676**	**12,982,676**	**-**
Fund Balance – December 31	**$ 12,748,037**	**$ 12,748,037**	**$ 13,991,770**	**$ 1,243,733**

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

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT A-4

BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Miscellaneous	$ 440,258	$ 440,258	$ 847,620	$ 407,362
Expenditures				
Current				
Conservation of natural resources				
Land use	440,258	440,258	610,698	(170,440)
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ -**	**$ 236,922**	**$ 236,922**
Other Financing Sources (Uses)				
Transfers out	-	-	(201,330)	(201,330)
Net Change in Fund Balance	**$ -**	**$ -**	**$ 35,592**	**$ 35,592**
Fund Balance – January 1	**198,072**	**198,072**	**198,072**	**-**
Fund Balance – December 31	**$ 198,072**	**$ 198,072**	**$ 233,664**	**$ 35,592**

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

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT A-5

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2018

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Carlton County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.2524 %	$ 14,002,118	$ 459,331	$ 14,461,449	$ 16,963,560	82.54 %	79.53 %
2017	0.2463	15,723,630	197,710	15,921,340	15,867,080	99.10	75.90
2016	0.2409	19,559,886	255,516	19,815,402	14,950,027	130.84	68.91
2015	0.2434	12,614,251	N/A	12,614,251	14,301,656	88.20	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A – Not Applicable

EXHIBIT A-6

SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2018

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b – a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2018	$ 1,292,250	$ 1,292,250	$ -	$ 17,230,000	7.50 %
2017	1,238,426	1,238,426	-	16,512,347	7.50
2016	1,151,435	1,151,435	-	15,352,467	7.50
2015	1,096,628	1,096,628	-	14,621,707	7.50

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The County's year-end is December 31.

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT A-7

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2018

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.1916 %	$ 2,042,259	$ 2,019,309	101.14 %	88.84 %
2017	0.1810	2,443,715	1,860,772	131.33	85.43
2016	0.1860	7,464,504	1,791,093	416.76	63.88
2015	0.1800	2,045,221	1,646,691	124.20	86.61

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT A-8

SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2018

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b – a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2018	$ 341,085	$ 341,085	$ -	$ 2,105,463	16.20 %
2017	319,460	319,460	-	1,971,975	16.20
2016	287,427	287,427	-	1,774,241	16.20
2015	282,619	282,619	-	1,744,562	16.20

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The County's year-end is December 31.

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

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT A-9

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES LOCAL GOVERNMENT CORRECTIONAL SERVICE RETIREMENT PLAN
DECEMBER 31, 2018

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.4895 %	$ 80,508	$ 999,806	8.05 %	97.64 %
2017	0.4900	1,396,505	982,183	142.18	67.89
2016	0.4500	1,643,914	845,589	194.41	58.16
2015	0.4300	66,478	779,829	8.52	96.95

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.

EXHIBIT A-10

SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES LOCAL GOVERNMENT CORRECTIONAL SERVICE RETIREMENT PLAN
DECEMBER 31, 2018

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b – a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2018	$ 86,975	$ 86,975	$ -	$ 994,000	8.75 %
2017	89,907	89,907	-	1,027,509	8.75
2016	78,221	78,221	-	893,954	8.75
2015	71,483	71,483	-	816,949	8.75

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The County's year-end is December 31.

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end.

In July of each year, all departments and agencies submit requests for appropriations to the County Auditor/Treasurer so that a budget can be prepared. Before September 30, the proposed budget is presented to the County Board for review. A final budget is adopted by the Board and certified to the Auditor/Treasurer by December 20.

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2018, expenditures exceeded appropriations in the following fund:

	Final Budget	Actual	Excess
Forfeited Tax Special Revenue Fund	$ 440,258	$ 610,698	$ 170,440

3. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30:

General Employees Retirement Plan

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.

3. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan

2018 (Continued)

- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to $21 million in calendar years 2017 and 2018 and returns to $31 million through calendar year 2031. The state's required contribution is $16 million in PERA's fiscal years 2018 and 2019 and returns to $6 million annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.

3. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan

2016 (Continued)

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

2018

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

- Post-retirement benefit increases changed to 1.00 percent for all years, with no trigger.

- An end date of July 1, 2048, was added to the existing $9.0 million state contribution. Additionally, annual state aid will equal $4.5 million in fiscal years 2019 and 2020, and $9.0 million thereafter, until the plan reaches 100 percent funding, or July 1, 2048, if earlier.

- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019, and January 1, 2020, from 16.20 percent to 16.95 and 17.70 percent of pay, respectively. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.

- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.

- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

3. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

Public Employees Police and Fire Plan (Continued)

2017

- The 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.

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

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 33 percent for vested members and 2.00 percent for non-vested members.

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

- The assumed termination rates were decreased to 3.00 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.

- The assumed percentage of married female members was decreased from 65 percent to 60 percent.

- The 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.

3. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

Public Employees Police and Fire Plan

2017 (Continued)

- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.

- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.

- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Local Government Correctional Service Retirement Plan

2018

- The single discount rate was changed from 5.96 percent per annum to 7.50 percent per annum.

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

- The assumed post-retirement benefit increase was changed from 2.50 percent per year to 2.00 percent per year.

3. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

Public Employees Local Government Correctional Service Retirement Plan (Continued)

2017

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2016).

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1.00 percent for non-vested members.

- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

2016

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.

- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

OTHER INFORMATION

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CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT B-1

BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,049,082	$ 1,049,082	$ 1,023,688	$ (25,394)
Intergovernmental	-	-	21,813	21,813
Total Revenues	**$ 1,049,082**	**$ 1,049,082**	**$ 1,045,501**	**$ (3,581)**
Expenditures				
Debt service				
Principal	$ 810,000	$ 810,000	$ 810,000	$ -
Interest	239,082	239,082	189,255	49,827
Administrative charges	-	-	2,450	(2,450)
Total Expenditures	**$ 1,049,082**	**$ 1,049,082**	**$ 1,001,705**	**$ 47,377**
Net Change in Fund Balance	**$ -**	**$ -**	**$ 43,796**	**$ 43,796**
Fund Balance – January 1	**2,050,514**	**2,050,514**	**2,050,514**	**-**
Fund Balance – December 31	**$ 2,050,514**	**$ 2,050,514**	**$ 2,094,310**	**$ 43,796**

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FIDUCIARY FUNDS

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CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT C-1

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

	Balance January 1	Additions	Deductions	Balance December 31
MOTOR VEHICLE REGISTRATION				
Assets				
Cash and pooled investments	$ -	$ 5,186,311	$ 5,186,311	$ -
Liabilities				
Accounts payable	$ -	$ 5,186,311	$ 5,186,311	$ -
EMPLOYEE FLEXIBLE BENEFITS				
Assets				
Cash and pooled investments	$ 80,734	$ 131,917	$ 127,690	$ 84,961
Liabilities				
Accounts payable	$ 80,734	$ 131,917	$ 127,690	$ 84,961
STATE				
Assets				
Cash and pooled investments	$ 85,200	$ 5,288,839	$ 5,229,156	$ 144,883
Liabilities				
Due to other governments	$ 85,200	$ 5,288,839	$ 5,229,156	$ 144,883

EXHIBIT C-1
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
SCHOOL DISTRICTS				
Assets				
Cash and pooled investments	$ 202,047	$ 12,661,709	$ 12,624,668	$ 239,088
Liabilities				
Due to other governments	$ 202,047	$ 12,661,709	$ 12,624,668	$ 239,088
TOWNS AND CITIES				
Assets				
Cash and pooled investments	$ 145,020	$ 11,949,419	$ 11,884,271	$ 210,168
Liabilities				
Due to other governments	$ 145,020	$ 11,949,419	$ 11,884,271	$ 210,168
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ -	$ 61,825,148	$ 61,825,148	$ -
Liabilities				
Due to other governments	$ -	$ 61,825,148	$ 61,825,148	$ -

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT C-1
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
NORTHEASTERN WASTE ADVISORY COUNCIL				
Assets				
Cash and pooled investments	$ 953	$ -	$ -	$ 953
Liabilities				
Due to other governments	$ 953	$ -	$ -	$ 953
REFUNDING				
Assets				
Cash and pooled investments	$ 1,422,667	$ 440,588	$ 807,194	$ 1,056,061
Liabilities				
Due to other governments	$ 1,422,667	$ 440,588	$ 807,194	$ 1,056,061
COLLABORATIVE				
Assets				
Cash and pooled investments	$ 347,565	$ 175,811	$ 229,231	$ 294,145
Liabilities				
Due to other governments	$ 347,565	$ 175,811	$ 229,231	$ 294,145

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT C-1
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	**$ 2,284,186**	**$ 97,659,742**	**$ 97,913,669**	**$ 2,030,259**
Liabilities				
Accounts payable	$ 80,734	$ 5,318,228	$ 5,314,001	$ 84,961
Due to other governments	2,203,452	92,341,514	92,599,668	1,945,298
Total Liabilities	**$ 2,284,186**	**$ 97,659,742**	**$ 97,913,669**	**$ 2,030,259**

OTHER SCHEDULE

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CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT D-1

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

Appropriations and Shared Revenue		
State		
Highway users tax	$	4,753,895
County program aid		2,126,560
PERA rate reimbursement		54,851
Disparity reduction aid		371,863
Police aid		200,102
E-911		113,901
Aquatic invasive species aid		68,474
SCORE		101,664
Market value credit		177,998
Casino revenue aid		53,132
Out of home placement aid		120,073
Total appropriations and shared revenue	**$**	**8,142,513**
Reimbursement for Services		
Minnesota Department of Human Services	**$**	**2,517,800**
Payments		
Local		
Other local contributions	$	101,005
State		
Payments in lieu of taxes		446,524
Total payments	**$**	**547,529**
Grants		
State		
Minnesota Department/Board of		
Public Safety	$	37,268
Transportation		64,961
Health		320,962
Natural Resources		268,736
Human Services		2,685,195
Water and Soil Resources		141,529
Labor and industry		70,605
Veterans Affairs		10,000
Employment and Economic Development		325,045
Iron Range Resources and Rehabilitation Board		233,823
Total state	**$**	**4,158,124**

(Unaudited)

EXHIBIT D-1
(Continued)

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

Grants (Continued)		
Federal		
Department of		
Agriculture	$	545,635
Public Safety		66,658
Transportation		365,414
Education		16,851
Health and Human Services		4,420,759
Homeland Security		62,228
Total federal grants	**$**	**5,477,545**
Total state and federal grants	**$**	**9,635,669**
Total Intergovernmental Revenue	**$**	**20,843,511**

Management and Compliance Section

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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
Carlton County
Carlton, Minnesota

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carlton County, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 19, 2019. We have issued an adverse opinion on the governmental activities' financial statements because Carlton County has reported neither capital assets nor other postemployment benefits (OPEB) obligations in the Statement of Net Position and has reported neither the related depreciation nor the change in the net OPEB obligations in the Statement of Activities, as required by accounting principles generally accepted in the United States of America. Also, capital expenditures have not been eliminated from the Statement of Activities.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Carlton 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.

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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we did identify certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and deficiencies that we consider to be significant deficiencies.

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 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 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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 1996-011 and 2008-001 to be material weaknesses and items 1996-012, 1996-018, 2006-003, 2006-004, and 2006-005 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Carlton County's financial statements are free from 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 Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: 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, except that we did not test for compliance with the provisions for tax increment financing because the County does not administer any tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Carlton County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*. 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 Questioned Costs are management practices comments and an other matter. We believe these recommendations and information to be of benefit to the County, and they are reported for that purpose.

Carlton County's Response to Findings

Carlton County's responses to the internal control and management practices findings and to the other matter identified in our audit are described in the Corrective Action Plan. 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 results 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.

/s/Julie Blaha	*/s/Greg Hierlinger*
JULIE BLAHA STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 19, 2019

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

Independent Auditor's Report

Board of County Commissioners
Carlton County
Carlton, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Carlton County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2018. Carlton County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

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

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

Opinion on Each Major Federal Program

In our opinion, Carlton County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001. Our opinion on each major federal program is not modified with respect to this matter.

Carlton County's response to the noncompliance finding identified in our audit is described in the accompanying Corrective Action Plan. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001, that we consider to be a significant deficiency.

Carlton County's response to the internal control over compliance finding identified in our audit is described in the accompanying Corrective Action Plan. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 19, 2019

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REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Independent Auditor's Report

Board of County Commissioners
Carlton County
Carlton, Minnesota

We have audited the accompanying Schedule of Expenditures of Federal Awards (SEFA) of Carlton County, Minnesota, for the year ended December 31, 2018.

Management's Responsibility for the SEFA

Management is responsible for the preparation and fair presentation of the SEFA in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a SEFA that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on Carlton County's SEFA based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether the SEFA is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the SEFA. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the SEFA, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the SEFA in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the SEFA.

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

Opinion

In our opinion, the SEFA presents fairly, in all material respects, the expenditures of federal awards of Carlton County for the year ended December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

/s/Julie Blaha	*/s/Greg Hierlinger*
JULIE BLAHA STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 19, 2019

CARLTON COUNTY
CARLTON, MINNESOTA

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

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Adverse on the government-wide financial statements because Carlton County has not reported and depreciated capital assets and eliminated capital outlay expenditures in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* Also, the County has not reported a liability and related expense for other postemployment benefits in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.***

The opinions on the financial statements of each major fund and the aggregate remaining fund information are unmodified.

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major federal programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **Yes**

The major federal programs are:

Child Support Enforcement	CFDA No. 93.563
Medicaid Cluster	
Medical Assistance Program	CFDA No. 93.778

The threshold for distinguishing between Types A and B programs was $750,000.

Carlton County qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 1996-011

Capital Assets

Criteria: GASB Statement 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. In addition, capital outlay expenditures in a governmental fund's Statement of Revenues, Expenditures, and Changes in Fund Balance are eliminated in the Statement of Activities. Current GAAP also require capital assets be valued at historical cost or, if historical cost data are not available, estimated cost.

Condition: The County does not maintain capital asset records, which show cost or estimated historical cost, and has not properly reported capital assets in its government-wide financial statements.

Context: To comply with GASB Statement 34, the County must establish accounting policies for capital assets, including capitalization thresholds, useful lives, and the designation of specific general ledger accounting codes to record the purchases and construction costs of capital assets. Capital assets, as defined by GASB Statement 34, include: land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible and intangible assets used in operations and that have initial useful lives extending beyond a reporting period. The County must establish a capital asset accounting system capable of providing the information needed to comply with the reporting requirements of GASB Statement 34. Information needed for reporting includes capital assets by major asset category, capital outlay expenditures by department and major expenditure function, and depreciation expense by department and major expenditure function.

Effect: Because Carlton County has not complied with the requirements of GASB Statement 34, an adverse opinion is issued on the government-wide financial statements.

Cause: Carlton County has not developed a comprehensive capital asset policy, nor undertaken a study to properly value its capital assets in accordance with generally accepted accounting principles.

Recommendation: In order to improve control over capital assets, eliminate the adverse opinion in relation to capital assets, and comply with the requirements of GASB Statement 34, a record-keeping system should be established for capital assets. The County Board should take steps to establish formal policies and procedures for implementing a capital asset system. Below is an outline for developing and maintaining a capital asset inventory system:

1. Adopt a capitalization policy that sets a minimum dollar value for an asset to be accounted for on the capital asset system. Determine the useful lives for various classes of assets to be used for depreciation purposes and the general ledger account codes to be used to record capital asset transactions.

2. Identify the information that will need to be captured by a capital asset accounting system, and establish a system that will provide the information needed to comply with the reporting requirements of GASB Statement 34.

3. Inventory all capital assets, including infrastructure assets, owned by the County, and assign responsibility for each asset to a particular department head or official.

4. Assign actual or estimated historical cost to each item. Enter the information into the capital asset system.

5. Maintain the capital asset accounting system on a current basis. Procedures will need to be established on how disposals of capital assets will be identified by department heads and how the information will be transmitted to the person responsible for maintaining the capital asset system.

6. Periodically verify departmental inventory by physical inspection.

View of Responsible Official: Concur

Finding Number 1996-012

Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. This responsibility includes the internal controls over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system.

Condition: Several of Carlton County's departments that collect fees lack proper segregation of the accounting functions necessary to ensure adequate internal accounting control. Generally, one staff person is responsible for billing, collecting, depositing, and recording receipts as well as reconciling bank accounts.

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

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

Cause: This condition is not unusual for an organization the size of Carlton County, where, because of staffing limitations, it is impractical to achieve a desirable level of segregation of duties. Management has identified departments where inadequate segregation of duties issues exist. Management has determined that, given limited resources, it is not feasible to achieve the desired level of segregation of duties in these departments.

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

View of Responsible Official: Acknowledged

Finding Number 1996-018

Jail Canteen Account

Criteria: The County Sheriff operates a canteen fund to purchase and sell items used by the prisoners in the jail in accordance with Minnesota Department of Corrections Rule No. 2911.4800. Revenues received from the sale of items and all purchases of goods for resale are handled through a separate checking account. Profits from the canteen operation are turned over to the County and recorded on the County's general ledger system.

Condition: The activity of the Sheriff's canteen fund is not fully accounted for in the general ledger of Carlton County. Profits are turned over to the County, but the remainder of the activity is not accounted for in the County's general ledger.

Context: It is our belief that canteen funds meet the criteria of County funds and should be accounted for in the County's general ledger system. The funds are both collected and administered by on-duty public employees acting on behalf of the County, using County facilities, and fulfilling their responsibilities to care for County prisoners.

Effect: Canteen fund activity is not being properly recorded in the accounting records of Carlton County. This condition results in a potential weakness in internal control over accounting for revenues and expenditures of the County's canteen fund. The recording of these funds on the County's general ledger system would not preclude the County Board from using the profits of the canteen fund for the benefit of the inmates.

Cause: The canteen fund has been in operation for many years. It was originally established as a separate fund and has continued to operate in that manner. It is unknown how the original start-up inventory was funded.

Recommendation: We recommend the full operations of the jail canteen fund be recorded on the County's general ledger system. This would include depositing all money received from sales and making all purchases with County warrants. If the County Board consents, these funds may be dedicated and used for the benefit of inmates.

View of Responsible Official: Acknowledged

Finding Number 2006-003

Journal Entries

Criteria: Carlton County limits access to the journal entry function on the Integrated Financial System (IFS) to select County employees. The ability to make journal entries on the IFS general ledger is a powerful function. It allows those employees with access to the journal entry function to make changes to the general ledger system. To prevent abuse of this function, it should be limited to those employees who have a logical need for this access. A procedure for review and approval of the journal entries made should also be in place.

Condition: Appropriate County management does not review or approve journal entries made by staff.

Context: Carlton County seldom uses journal entries for making adjustments to the financial records. Adjustments are posted to the general ledger as negative receipts and disbursements where corrections are required. Journal entries are generally used only in unusual circumstances and in financial closing procedures.

Effect: Lack of a review and approval process for journal entries exposes the County to the potential for errors or fraudulent activities to occur and remain undetected.

Cause: The County has not developed procedures for review and approval of journal entries.

Recommendation: We recommend the County Auditor/Treasurer annually review the access to the journal entry function to determine whether it remains appropriate. We also recommend a procedure be established to require review and approval of journal entries by someone other than the person making the journal entries. This person should obtain an understanding of the journal entry and its purpose before approval. The approval could be documented by signature on a journal entry form or a printed copy of the journal entry made. Supporting documentation or sufficient explanation should be attached to or included on the journal entry to explain why the journal entry is being made and who is making the journal entry. Journal entries should be filed in a manner that allows for their review should questions arise. A report should be generated from the IFS that lists all journal entries made. The person charged with review and approval of journal entries should periodically review this report to ensure no journal entries have been made that were not submitted for review and approval.

View of Responsible Official: Acknowledged

Finding Number 2006-004

Accounting Policies and Procedures Manual

Criteria: All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures that make up the government's internal control system.

Condition: The County does not have a current and comprehensive accounting policies and procedures manual.

Context: An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the County's internal control system and can help to avoid circumvention of County policies.

Effect: In lieu of formal written accounting policies and procedures, informal practices and procedures can become unwritten standards that can have unintended consequences. Without a concisely written comprehensive policies and procedures manual clearly identifying County policies and procedures required to be followed, potential misunderstandings or abusive practices may occur.

Cause: Carlton County has never formalized its policies and procedures in a comprehensive manual.

Recommendation: We recommend the County Auditor/Treasurer establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

View of Responsible Official: Acknowledged

Finding Number 2006-005

Computer Risk Management

Criteria: Risk management begins with a risk assessment of the County's computer system to identify those risks that could negatively influence computer operations. Internal controls should be implemented to reduce the identified risks. Internal controls implemented should be documented in a well-maintained policies and procedures manual, which should be communicated to the County's staff. Staff adherence to these policies and procedures should be monitored. Because computer systems are ever changing, the County should include in its plan periodic reassessment of risk to ensure existing internal controls are still effective.

Condition: The County has internal controls in place for its computer system. However, the County has not developed a formal plan to identify and manage risks associated with its computer system.

Context: A well-developed formal plan of risk identification can assist management and governance in identifying potential risks and develop plans to mitigate or eliminate those risks.

Effect: Unanticipated risks may present themselves that County management and governance could potentially be unprepared to respond to in a timely and effective manner.

Cause: The County has not taken steps to implement a formal plan to identify potential risks that could negatively affect internal controls operating over County computer operations.

Recommendation: We recommend the County Board develop a plan to ensure that internal controls are in place to reduce the risk associated with the County's computer systems.

View of Responsible Official: Acknowledged

Finding Number 2008-001

Other Postemployment Benefits (OPEB)

Criteria: Generally accepted accounting principles (GAAP) require Carlton County to record its liability, deferred outflows of resources, deferred inflows of resources, and related expense for OPEB in the government-wide financial statements, as determined by accounting standards established by the GASB.

Condition: Carlton County has not measured or recorded its OPEB liability, or related accounts for financial reporting in the current year.

Context: The County should have determined its OPEB liability and related accounts in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Effect: Because Carlton County has not complied with GAAP, an adverse opinion is issued on the government-wide financial statements.

Cause: The County has not hired an actuary to determine its OPEB liability and related accounts necessary to meet the requirements for financial reporting under GASB Statement 75.

Recommendation: We recommend the County Board determine and record the County's OPEB liability, deferred outflows of resources, deferred inflows of resources, and expense in accordance with the requirements of GASB Statement 75. This will require the County Board to contract with an actuarial service to determine the liability.

View of Responsible Official: Concur

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

Finding Number 2018-001

Eligibility

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award No. 1805MN5ADM, 2018

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Title 2 U.S. Code of Federal Regulations § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: The Minnesota Department of Human Services (DHS) maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. For three of the 40 case files tested, the information in MAXIS was not properly verified or did not match the supporting documentation provided by the participant.

Questioned Costs: Not applicable. The County administers the program, but benefits to participants in this program are paid by the State of Minnesota.

Context: The State of Minnesota contracts with the County to perform the "intake function" (meeting with the social services client to determine income and categorical eligibility), while the Minnesota DHS maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to the participants.

The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: The lack of updated information in MAXIS and verification of key eligibility-determining factors increases the risk that a program participant will receive benefits when they are not eligible. In addition, one participant received benefits when they were not eligible to do so.

Cause: Program personnel entering case information into MAXIS did not ensure all required information was entered into MAXIS, that it was verified as required, or that calculations were performed correctly.

Recommendation: We recommend the County implement additional review procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations exists and is properly input or updated in MAXIS.

View of Responsible Official: Concur

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 1996-026

Disaster Recovery Plan

Criteria: To effectively deal with a disaster affecting computer operations, the County should have a complete, current, and detailed disaster recovery plan in effect. Formalized procedures should be documented in the plan for the restoration of critical systems, retention and restoration of data, and identification of key personnel.

Condition: The County has a disaster recovery plan in the event of a disaster involving its computer system. Since the plan was written, new computer systems and software have been implemented that make the disaster recovery plan outdated.

Context: With the increased importance of, and reliance on, data processing in the day-to-day operations of the County, an outdated or incomplete disaster recovery plan could delay the County's return to normal operations after a disaster.

Effect: Relying on an outdated disaster recovery plan exposes the County to potential risk to its critical IT systems and data.

Cause: The plan has not been updated since 1993.

Recommendation: We recommend the head of the County Data Processing Department update the disaster recovery plan to reflect new systems, software, and changes in personnel and operations that have occurred over the years since the plan was last updated.

View of Responsible Official: Acknowledged

Finding Number 1998-007

<u>Contract Change Orders</u>

Criteria: The County should develop a policy to identify when change orders on contracts should be brought before the County Board for approval.

Condition: In a prior year, the County had a significant overrun on a remodeling contract that had to be absorbed by the General Fund. Change orders on this contract had been approved by the project architects and the project manager; however, they had not been approved by the County Board.

Context: The County Board does not have a clear policy as to whether all contract change orders are to be approved by the Board. The County has a draft policy, but it has not yet been approved by the County Board.

Effect: It is important that the Board issue a policy identifying which change orders must be approved by the County Board when they involve the use of County resources to fund any project overruns.

Cause: The County lacks a formal change order policy.

Recommendation: We recommend the County Board draft a clear policy on the procedures to be followed for change orders that states when change orders should be brought before the Board for approval.

View of Responsible Official: Acknowledged

B. OTHER MATTER

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2014-002

Documentation of Capital Assets

Program: U.S. Department of Transportation's Airport Improvement Program (CFDA No. 20.106) Award Nos. SP 902-54 and SP 904-35, 2014 and 2015

Pass-Through Agency: Minnesota Department of Transportation

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303(a) states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. In addition, the County is required to comply with the provisions for equipment and real property management in Part 3 of the 2015 OMB *Compliance Supplement*, which include establishing policies and procedures for equipment management.

Condition: The County does not have policies or procedures in place to properly track equipment acquired under this grant.

Questioned Costs: None.

Context: The County should have policies and procedures in place to ensure that any equipment acquired under the grant is properly tracked.

Effect: Equipment purchased under this grant was not properly tracked by the County.

Cause: Carlton County has not developed a comprehensive capital asset policy, nor has it developed a procedure to track and maintain a capital asset listing of equipment.

Recommendation: We recommend the County establish a record-keeping system for capital assets and establish formal written policies and procedures to track equipment purchased under this grant in accordance with equipment and real property management requirements.

View of Responsible Official: Acknowledged

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Dick Brenner, Cloquet
SECOND DISTRICT
Marv Bodie, Esko
THIRD DISTRICT
Thomas Proulx, Cloquet
FOURTH DISTRICT
Mark Thell, Wrenshall
FIFTH DISTRICT
Gary Peterson, Barnum

**REPRESENTATION OF CARLTON COUNTY
CARLTON, MINNESOTA**

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2018

Finding Number: 1996-011
Finding Title: Capital Assets

Name of Contact Person Responsible for Corrective Action:

Kathy Kortuem - Acting County Auditor/Treasurer

Corrective Action Planned:

The County is working toward implementing a record-keeping system to track and report capital assets in accordance with GASB Statement No. 34. A capital asset policy is in the process of being drafted and approved. The County has done limited research to assist in the determination of their capital asset valuation and, if necessary, will contract with a vendor to assist in the recording of the County's capital assets and their valuations.

Anticipated Completion Date:

December 31, 2019

Finding Number: 1996-012
Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action:

Kathy Kortuem – Acting County Auditor/Treasurer

Corrective Action Planned:

The Carlton County Board of Commissioners is aware of the existing conditions with regard to the segregation of duties. To date, County management has implemented additional control procedures including adding monitors in specific departments, and having Auditor/Treasurer personnel perform periodic spontaneous cash counts. The Board and management do and will continue to review the duties and responsibilities of County Staff and to make appropriate changes where necessary and feasible.

Anticipated Completion Date:

Ongoing

Finding Number: 1996-018
Finding Title: Jail Canteen Account

Name of Contact Person Responsible for Corrective Action:

Kathy Kortuem – Acting County Auditor/Treasurer
(in conjunction with County Sheriff Department/Jail Division staff)

Corrective Action Planned:

The County Auditor/Treasurer staff, in conjunction with County Sheriff/Jail Division staff, are working to resolve this issue. The County has entered into a new contract for jail vending services; it is hoped that this issue can be resolved in the near future.

Anticipated Completion Date:

December 31, 2019

Finding Number: 2006-003
Finding Title: Journal Entries

Name of Contact Person Responsible for Corrective Action:

Kathy Kortuem – Acting County Auditor/Treasurer

Corrective Action Planned:

The County Auditor/Treasurer staff will review the access to journal entry functions so as to determine the need for access by selected employees. It is further the intent of the Auditor/Treasurer's Office to establish review and approval procedures for all journal entries. To date, a formal review and approval process policy has not been formally established and approved.

Anticipated Completion Date:

December 31, 2019

Finding Number: 2006-004
Finding Title: Accounting Policies and Procedures Manual

Name of Contact Person Responsible for Corrective Action:

Kathy Kortuem – Acting County Auditor/Treasurer

Corrective Action Planned:

A 'draft' of the manual has been prepared and is currently being reviewed by the Carlton County Policy Committee.

Anticipated Completion Date:

December 31, 2019

Finding Number: 2006-005
Finding Title: Computer Risk Management

Name of Contact Person Responsible for Corrective Action:

Kathy Kortuem – Acting County Auditor/Treasurer
(in conjunction with IT Office staff)

Corrective Action Planned:

The County Board, in conjunction with IT staff, will work to develop a plan to ensure internal controls are in place so as to reduce the risk associated with the County computer systems. A 'draft' of the plan is being prepared for review and approval by the Carlton County Policy Committee; the plan has not yet been formally accepted by the County Board.

Anticipated Completion Date:

December 31, 2019

Finding Number: 2008-001
Finding Title: Other Postemployment Benefits (OPEB)

Name of Contact Person Responsible for Corrective Action:

Kathy Kortuem – Acting County Auditor/Treasurer
(in conjunction with HR staff)

Corrective Action Planned:

To date, the County has not reported its OPEB liability or the change to its OPEB liability in its governmental activities. The County Board has contracted for actuarial services and provided data to determine the County's OPEB liability so as to be GASB 75 compliant.

Anticipated Completion Date:

December 31, 2019

Finding Number: 2018-001
Finding Title: Eligibility – U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action:

Dan Tempes – Human Services Fiscal Supervisor

Corrective Action Planned:

The County Human Services supervisors will provide additional training and monitoring in relation to inputting and updating case file information into the MAXIS system to help assure all necessary documentation and support is properly and accurately included in the system.

Anticipated Completion Date:

December 31, 2019

Finding Number: 1996-026
Finding Title: Disaster Recovery Plan

Name of Contact Person Responsible for Corrective Action:

Kathy Kortuem – Acting County Auditor/Treasurer
(in conjunction with IT Office staff)

Corrective Action Planned:

The County Board, in conjunction with IT staff, will update the plan to ensure that adequate safety measures are in place in the event of a disaster involving the County's computer systems and software. To date, the County has taken steps to share a 'hosted' computer at an offsite location; the underlying disaster recovery plan has not been updated.

Anticipated Completion Date:

Ongoing

Finding Number: 1998-007
Finding Title: Contract Change Orders

Name of Contact Person Responsible for Corrective Action:

Kathy Kortuem - Acting County Auditor/Treasurer

Corrective Action Planned:

Although a 'draft' of a policy has been prepared and is currently being reviewed by the Carlton County Policy Committee, the policy has not yet been formally accepted by the County Board.

Anticipated Completion Date:

Ongoing

Finding Number: 2014-002
Finding Title: Documentation of Capital Assets
Program: Airport Improvement Program (CFDA No. 20.106)

Name of Contact Person Responsible for Corrective Action:

Kathy Kortuem – Acting County Auditor/Treasurer
(in conjunction with Transportation Department staff)

Corrective Action Planned:

The County Board will work to establish a record-keeping system for capital assets and establish formal written policies and procedures to track equipment purchased under federal grants in accordance with equipment and real property management requirements. To date, the Corrective Action Plan has not been completed. (It should be noted that, at this time, no additional equipment has been purchased under the Airport Improvement Program.)

Anticipated Completion Date:

Ongoing

Commissioners Office
County of Carlton
Carlton County Courthouse
P.O. Box 130
Carlton, MN 55718-0130
Telephone (218) 384-9127
Facsimile (218) 384-9116

REPRESENTATION OF CARLTON COUNTY
CARLTON, MINNESOTA

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

Finding Number: 1996-011
Finding Title: Capital Assets

Summary of Condition: Carlton County does not report capital assets on their Statement of Net Position as required by the Governmental Accounting Standards Board Statement No. 34. This is due to the County not maintaining a complete and accurate record of capital assets owned.

Summary of Corrective Action Previously Reported: The County is working to resolve this condition. To date, a draft Capital Asset Policy has been prepared to assist with accounting for capital assets within Carlton County, including capitalization thresholds, useful lives, and the designation of specific general ledger accounting codes to record the purchases and construction costs of capital assets. In addition to this, the County has researched various records and obtained financial information which will be used to assist in determining historical costs of some of the older county assets, including, but not limited to, the Courthouse Building.

Status: Not Corrected. Capital asset records are still not completed and reported. The County continues to accumulate information and formulate a process for a capital asset management system to record and maintain accurate records of the County's capital assets.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

Finding Number: 1996-012
Finding Title: Segregation of Duties

Summary of Condition: Several of Carlton County's departments that collect fees lack proper segregation of the accounting functions to ensure adequate internal accounting control. Generally, one staff person is responsible for billing, collecting, depositing, and recording receipts as well as reconciling bank accounts.

Summary of Corrective Action Previously Reported: The Carlton County Board of Commissioners is aware of the existing conditions with regard to the segregation of duties.

Status: Partially Corrected. Management has implemented compensating controls and additional oversight in some areas, and continues to monitor all areas. The Board and management do and will continue to review the duties and responsibilities of County staff and make appropriate changes where necessary and feasible.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

Finding Number: 1996-018
Finding Title: Jail Canteen Account

Summary of Condition: The activity of the Sheriff's canteen fund is not fully accounted for in the general ledger of Carlton County. Profits are turned over to the County, but the remainder of the activity is not accounted for in the County's general ledger.

Summary of Corrective Action Previously Reported: The County Auditor/Treasurer staff, in conjunction with Sheriff staff, are working to resolve this issue. It is hoped that this issue can be resolved in the near future.

Status: Not Corrected. The County Auditor/Treasurer staff, in conjunction with Sheriff staff, continue to work to resolve this issue.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

Finding Number: 2006-003
Finding Title: Journal Entries

Summary of Condition: Appropriate County supervisory staff do not review and/or approve journal entries created by staff.

Summary of Corrective Action Previously Reported: The County Auditor/Treasurer staff will review the access to journal entry functions so as to determine the need for access by selected employees. It is further the intent of the Auditor/Treasurer Office to establish review and approval procedures for all journal entries.

Status: Not Corrected. Formal review and approval process policies and procedures have not yet been established and adopted.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

Finding Number: 2006-004
Finding Title: Accounting Policies and Procedures Manual

Summary of Condition: The County does not have a current and comprehensive accounting policies and procedures manual.

Summary of Corrective Action Previously Reported: The County Auditor/Treasurer staff will work with the State Auditor's Office staff (and other governmental entities) to establish an accounting policies and procedures manual. A 'draft' of the manual has been prepared and is currently being reviewed by the Carlton County Policy Committee.

Status: Partially Corrected. Although a 'draft' of the manual has been prepared for review and approval by the Carlton County Policy Committee, the manual has not yet been formally accepted by the County Board.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

Finding Number: 2006-005
Finding Title: Computer Risk Management

Summary of Condition: The County has internal controls in place for its computer systems. However, the County has not developed a formal plan to identify and manage risks associated with its computer system.

Summary of Corrective Action Previously Reported: The County Board, in conjunction with IT staff, will develop a plan to ensure internal controls are in place so as to reduce the risk associated with the County computer systems.

Status: Not Corrected. The County Board, in conjunction with IT staff, are continuing work on the development of a plan to address this issue.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

Finding Number: 2008-001
Finding Title: Other Postemployment Benefits (OPEB)

Summary of Condition: GASB Statement No. 75 has not been implemented by Carlton County. The County has not undergone an actuarial study to determine its OPEB liability. The County has not reported its OPEB liability or the change to the OPEB liability in its governmental activities.

Summary of Corrective Action Previously Reported: The County Board will work to determine the County's OPEB liability so as to be GASB 75 compliant.

Status: Not Corrected. However, the County Board has approved contracting for actuarial services and data has been supplied for the study. Information will be ready for the financial statements ending December 31, 2019.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

Finding Number: 2014-002
Finding Title: Documentation of Capital Assets
Program: Airport Improvement Program (CFDA No. 20.106)

Summary of Condition: Carlton County does not have formal policies and procedures in place to properly track equipment acquired under the U.S. Department of Transportation Airport Improvement Program (CFDA No. 20.106).

Summary of Corrective Action Previously Reported: The County Board will work to establish a record-keeping system for capital assets and establish formal written policies and procedures to track equipment purchased under federal grants in accordance with equipment and real property management requirements.

Status: Not Corrected. To date, the Corrective Action Plan has not been completed. (It should be noted that, at this time, no additional equipment has been purchased under the U.S. Department of Transportation Airport Improvement Program (CFDA No. 20.106)).

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

Finding Number: 1996-026
Finding Title: Disaster Recovery Plan

Summary of Condition: The County has a disaster recovery plan in the event of a disaster involving its computer system. Since the plan was written, new computer systems and software have been implemented that make the disaster recovery plan outdated.

Summary of Corrective Action Previously Reported: Carlton County recognizes that a Disaster Recovery Plan needs to be in place. The County Board, in conjunction with IT staff, will update the plan to ensure that adequate safety measures are in place in the event of a disaster involving the County's computer systems and software. The County has taken steps to share a "hosted" computer at an offsite location.

Status: Not Corrected. Although the County has taken steps to update their recovery procedures, including using a 'hosted' computer at an offsite location, the underlying disaster recovery plan has not been updated.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

Finding Number: 1998-007
Finding Title: Contract Change Orders

Summary of Condition: The County does not have a current and comprehensive Contract Change Order policy.

Summary of Corrective Action Previously Reported: The County Board will adopt a formal policy with regard to contract and contract change orders to ensure that the County Board is aware of the change orders as they are incurred. A draft policy has been prepared and is under review.

Status: Partially Corrected. Although a 'draft' of a policy has been prepared for review and approval by the Carlton County Policy Committee, the manual has not yet been formally accepted by the County Board.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

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CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT D-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Agriculture			
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	182MN004W1006	$ 118,594
Passed Through Minnesota Department of Human Services			
SNAP Cluster			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	182MN101S2514	427,041
Total U.S. Department of Agriculture			**$ 545,635**
U.S. Department of Justice			
Passed Through Minnesota Department of Public Safety			
Crime Victim Assistance	16.575	F-CVS-2018-CARLTNAO	$ 64,539
Public Safety Partnership and Community Policing Grants	16.710	139230	2,119
Total U.S. Department of Justice			**$ 66,658**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Airport Improvement Program	20.106	SP 902-55	$ 111,936
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	00009	253,478
Total U.S. Department of Transportation			**$ 365,414**
U.S. Department of Education			
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board			
Special Education – Grants for Infants and Families	84.181	H181A170029	$ 2,263
Passed Through Minnesota Department of Employment and Economic Development			
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	Not available	14,588
Total U.S. Department of Education			**$ 16,851**
U.S. Department of Health and Human Services			
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board			
Public Health Emergency Preparedness	93.069	NU90TP921843	$ 24,030
Universal Newborn Hearing Screening	93.251	H61MC00035	675

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

EXHIBIT D-2
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Health and Human Services			
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board (Continued)			
TANF Cluster			
Temporary Assistance for Needy Families	93.558	2017G996115	22,571
(Total Temporary Assistance for Needy Families 93.558 $375,787)			
State Public Health Actions to Prevent and Control Diabetes, Heart Disease, Obesity, and Associated Risk Factors and Promote School Health, financed in part by Prevention and Public Health Funding (PPHF)	93.757	U58DP005452	17,033
Maternal, Infant, and Early Childhood Home Visiting Cluster			
Maternal, Infant, and Early Childhood Home Visiting Grant Program	93.870	X10MC31149	111,363
Maternal and Child Health Services Block Grant to the States	93.994	B04MC28107	38,235
Passed Through Minnesota Department of Human Services			
Guardianship Assistance	93.090	1801MNGARD	8,955
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	5H79SM080155	6,489
Promoting Safe and Stable Families	93.556	G-1701MNFPSS	25,127
TANF Cluster			
Temporary Assistance for Needy Families	93.558	1801MNTANF	353,216
(Total Temporary Assistance for Needy Families 93.558 $375,787)			
Child Support Enforcement	93.563	1804MNCEST	877,517
Child Support Enforcement	93.563	1804MNCSES	143,187
(Total Child Support Enforcement Program 93.563 $1,020,704)			
Community-Based Child Abuse Prevention Grants	93.590	G-1702MNFRPG	13,109
CCDF Cluster			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	G1801MNCCDF	11,091
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1701MNCWSS	9,601
Foster Care – Title IV-E	93.658	1801MNFOST	373,158
Adoption Assistance	93.659	1801MNADPT	58,512
Social Services Block Grant	93.667	G-1801MNSOSR	295,708
Chafee Foster Care Independence Program	93.674	G-1801MNCILP	2,681
Children's Health Insurance Program	93.767	1805MN5R21	479
Medicaid Cluster			
Medical Assistance Program	93.778	1805MN5MAP	11,650
Medical Assistance Program	93.778	1805MN5ADM	2,015,172
(Total Medical Assistance Program 93.778 $2,026,822)			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	TI010027-17	1,200
Total U.S. Department of Health and Human Services			**$ 4,420,759**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

EXHIBIT D-2
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers		Expenditures
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Natural Resources				
Boating Safety Financial Assistance	97.012	CARLTON-FBP-100818	$	38,405
Passed Through Minnesota Department of Public Safety				
Emergency Management Performance Grants	97.042	F-EMPG-2018-CARLTNCO		23,823
Total U.S. Department of Homeland Security			**$**	**62,228**
Total Federal Awards			**$**	**5,477,545**

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2018.

Totals by Cluster		
Total expenditures for SNAP Cluster	$	427,041
Total expenditures for Highway Planning and Construction Cluster		253,478
Total expenditures for TANF Cluster		375,787
Total expenditures for Maternal, Infant, and Early Childhood Home Visiting Cluster		111,363
Total expenditures for CCDF Cluster		11,091
Total expenditures for Medicaid Cluster		2,026,822

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CARLTON COUNTY
CARLTON, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

1. Reporting Entity

   The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Carlton County. The County's reporting entity is defined in Note 1 to the basic financial statements.

2. Basis of Presentation

   The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Carlton County under programs of the federal government for the year ended December 31, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Carlton County, it is not intended to and does not present the financial position or changes in net position of Carlton County.

3. Summary of Significant Accounting Policies

   Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Carlton County has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.