STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

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 150 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 650 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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RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

Year Ended December 31, 2015

Audit Practice Division
Office of the State Auditor
State of Minnesota

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RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

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RED LAKE FALLS, MINNESOTA

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RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

ORGANIZATION
2015

Office	Name	Term Expires
Commissioners		
1st District	David K. Sorensen	January 2019
2nd District	Ron Weiss[1]	January 2017
3rd District	John B. Lerohl	January 2019
4th District	Anthony Flage	January 2019
5th District	Charles Simpson[2]	January 2017
Officers		
Elected		
Attorney	Michael LaCoursiere	January 2019
Auditor	Robert Schmitz	January 2019
Recorder	Joyce Paquin	January 2019
Sheriff	Mitch Bernstein	January 2019
Treasurer	Nick Knott	January 2019
Appointed		
Assessor	Nancy Amberson	December 2016
Medical Examiner	Dr. Mary Ann Sens	June 2018
Highway Engineer	Courtney Kleven	May 2018
Veterans Service Officer	Kurtis Ellefson	December 2019
Environmental Services Director	Kurt Casavan	Indefinite

[1]Chair 2015
[2]Chair 2016

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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SAINT PAUL, MN 55103-2139

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Red Lake County
Red Lake Falls, 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 Red Lake County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Red Lake County as of December 31, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1.E. to the financial statements, in 2015 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Correction of Material Misstatement in Previously Issued Financial Statements

As discussed in Note 1.E. to the financial statements, the previously issued 2014 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and 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 GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Red Lake County's basic financial statements. The supplementary information 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. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2018, on our consideration of Red Lake County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Red Lake 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 Red Lake County's internal control over financial reporting and compliance.

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

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

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

August 9, 2018

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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Red Lake County Auditors Office

Bob Schmitz,
County Auditor

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(Unaudited)

Red Lake County's Management's Discussion and Analysis (MD&A) provides an overview of County financial activities for the fiscal year ended December 31, 2015. 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 Red Lake County's basic financial statements that follow this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

Red Lake County's total net position is $45,018,747, of which, $37,455,588 is the net investment in capital assets, $4,797,750 is restricted for specific purposes, and $2,765,409 (unrestricted net position) may be used to meet Red Lake County's ongoing obligations to citizens and creditors.

The County's net position increased by $941,272 for the year ended December 31, 2015, after restatement for Governmental Accounting Standards Board (GASB) Statements 68 and 71 and a prior period adjustment. Additional information about the restatement can be found in Note 1.E. to the financial statements. The increase was attributed mainly to an increase in highway infrastructure assets.

At the close of 2015, Red Lake County's governmental funds reported combined ending fund balances of $6,192,586, a decrease of $313,308 in comparison with the prior year. Of the total fund balances amount, $240,698 is nonspendable, $1,121,037 is legally or contractually restricted, $100,000 is formally committed for specific purposes, and $4,730,851 is assigned for specific purposes. Maintaining an adequate fund balance is necessary to provide County services throughout the year.

At the close of 2015, spendable, unrestricted fund balance for the General Fund was $2,512,510, or 82.0 percent of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to Red Lake County's basic financial statements. The County's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund level financial statements, and (3) notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and is included as required supplementary information. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of Red Lake County's finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of Red Lake County's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of Red Lake County is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

The County's government-wide financial statements report functions of the County that are principally supported by taxes and intergovernmental revenues. The governmental activities of Red Lake County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development.

The government-wide financial statements can be found as Exhibits 1 and 2 of this report.

Fund Level Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Red Lake County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Red Lake County can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, County fund level financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Red Lake County reports five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Road and Bridge and Social Services Special Revenue Funds, all of which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements after the notes to the financial statements.

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

Governmental fund financial statements can be found as Exhibits 3 through 6 of this report.

Fiduciary funds. Fiduciary funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, or other funds. The County's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. These activities are not reflected in the government-wide financial statements because those resources are not available to support the County's programs.

The fiduciary fund financial statement can be found as Exhibit 7 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and notes, this report also presents certain required supplementary information. The County also provides supplementary information including combining statements, a schedule of intergovernmental revenue, and a schedule of expenditures of federal awards and related notes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. Red Lake County's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $45,018,747 at the close of 2015. The largest portion of Red Lake County's net position (83 percent) reflects its net investment in capital assets (land, construction in progress, infrastructure, buildings, and equipment). However, it should be noted that these assets are not available for future spending. Approximately 11 percent of the County's net position is restricted, and 6 percent is unrestricted. The unrestricted net position amount of $2,765,409 may be used to meet the County's ongoing obligations to citizens.

Table A-1
Governmental Net Position

	2015	2014
Assets		
Current and other assets	$ 10,490,709	$ 9,601,257
Capital assets	37,547,919	38,791,838
Total Assets	$ 48,038,628	$ 48,393,095
Deferred Outflows of Resources		
Deferred pension outflows	$ 382,667	$ -
Liabilities		
Long-term liabilities outstanding	$ 2,684,771	$ 279,404
Other liabilities	408,606	349,165
Total Liabilities	$ 3,093,377	$ 628,569
Deferred Inflows of Resources		
Deferred pension inflows	$ 309,171	$ -
Net Position		
Net investment in capital assets	$ 37,455,588	$ 38,791,838
Restricted	4,797,750	3,631,904
Unrestricted	2,765,409	5,340,784
Total Net Position, as reported	$ 45,018,747	$ 47,764,526
Change in accounting principle*		(2,121,712)
Prior period adjustment**		(1,565,339)
Total Net Position, as restated (Note 1.E.)		$ 44,077,475

*This is the first year the County implemented the new pension accounting and financial reporting standards in GASB Statements 68, 71, and 82. The County had to make a prior year change in accounting principles to record the County's net pension liability and related deferred outflows of resources.

**The January 1, 2015, governmental activities' net position was decreased to correct a prior year overstatement of infrastructure, net of related accumulated depreciation.

Governmental Activities

Red Lake County's activities increased net position by $941,272, or 2 percent, over the 2014 net position, after the restatement for GASB Statements 68, 71, and 82 and a prior period adjustment. The key element of the increase was an increase in highway infrastructure assets.

Table A-2
Changes in Net Position

	2015	2014
Revenues		
Program revenues		
Fees, charges, fines, and other	$ 710,214	$ 919,550
Operating grants and contributions	3,708,806	2,183,676
Capital grants and contributions	630,861	1,717,738
General revenues		
Property taxes	2,350,907	2,198,536
Other taxes	15,638	473
Payments in lieu of tax	10,052	9,966
Grants and contributions not restricted to specific programs	440,503	463,268
Investment earnings	96,223	305,163
Miscellaneous	39,454	-
Total Revenues	$ 8,002,658	$ 7,798,370
Expenses		
General government	$ 1,147,582	$ 1,124,513
Public safety	1,247,176	1,342,708
Highways and streets	2,692,960	3,569,374
Sanitation	101,454	118,023
Human services	1,292,556	1,345,645
Health	60,388	63,888
Culture and recreation	112,299	104,871
Conservation of natural resources	399,971	383,378
Economic development	7,000	800
Total Expenses	$ 7,061,386	$ 8,053,200
Increase (Decrease) in Net Position	$ 941,272	$ (254,830)
Net Position, January 1, as restated (Note 1.E.)	44,077,475*	48,019,356
Net Position, December 31, as reported	$ 45,018,747	$ 47,764,526

*Amount includes a change in accounting principles and a prior period adjustment.

Figure A-3
Revenues by Source for Fiscal Year 2015

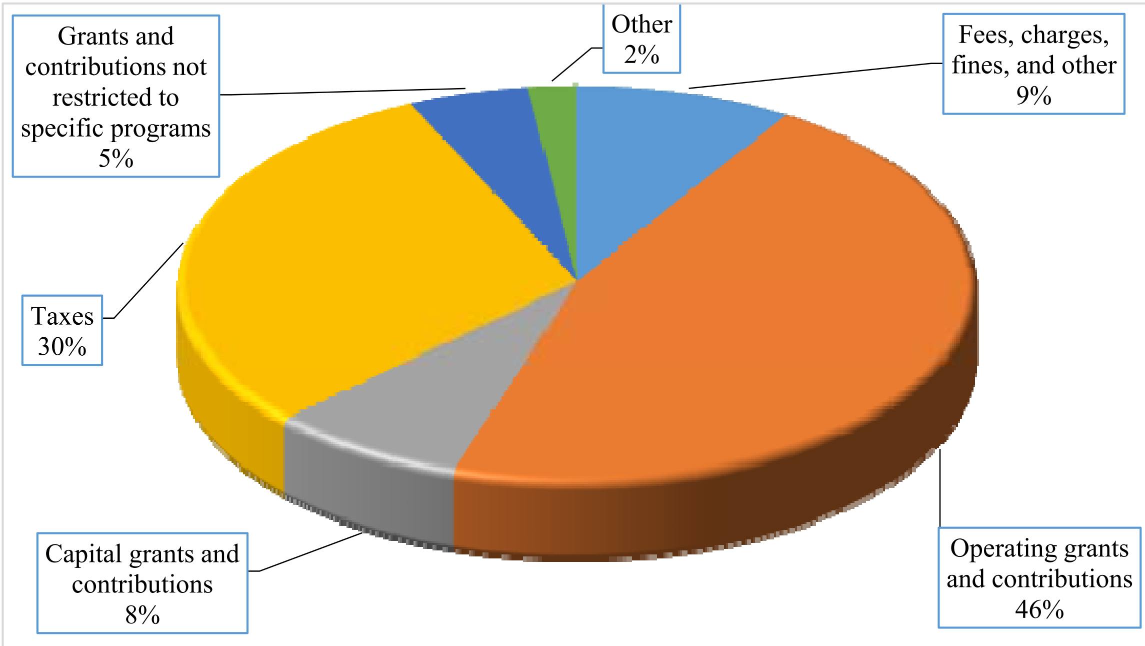


Figure A-4
Expenses by Function for Fiscal Year 2015

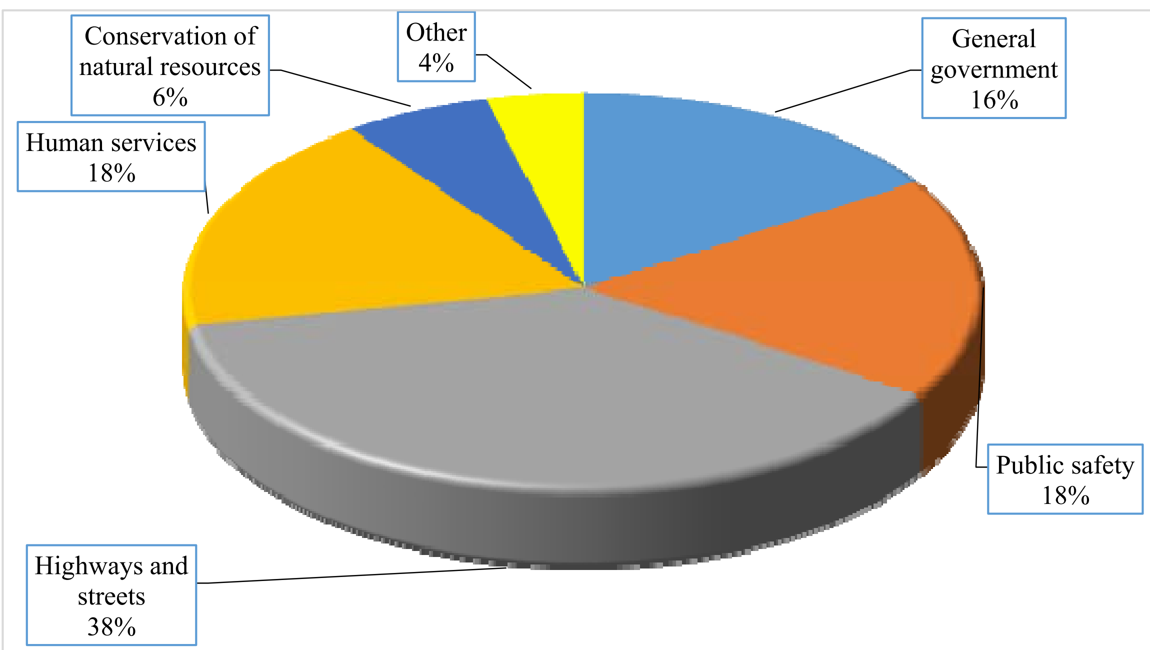


Figure A-5
Program Revenues and Expenses

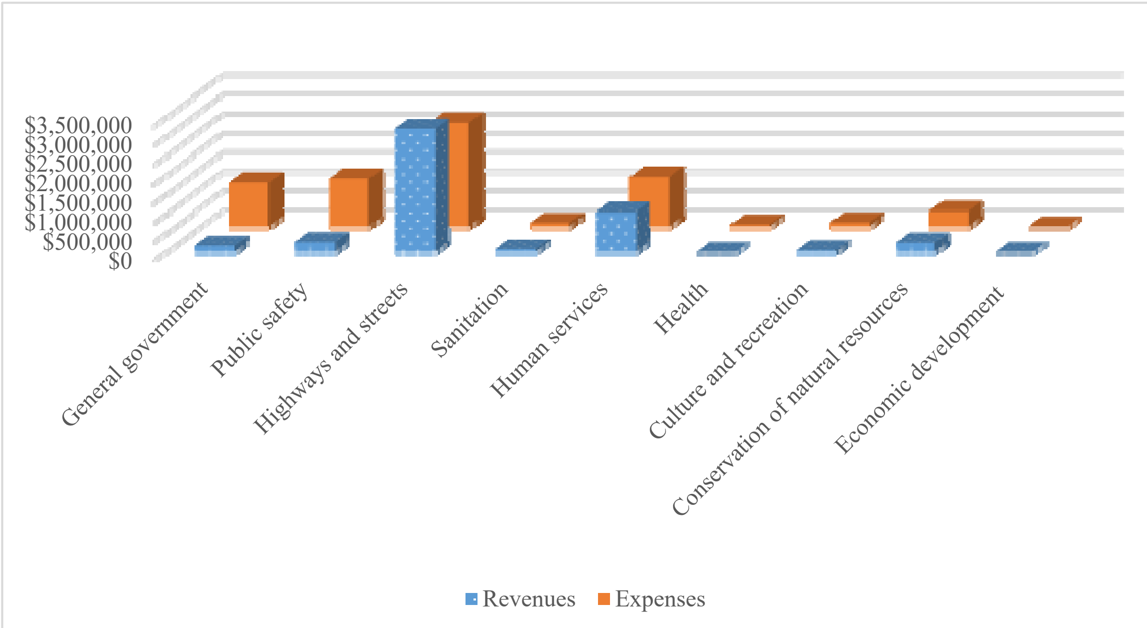
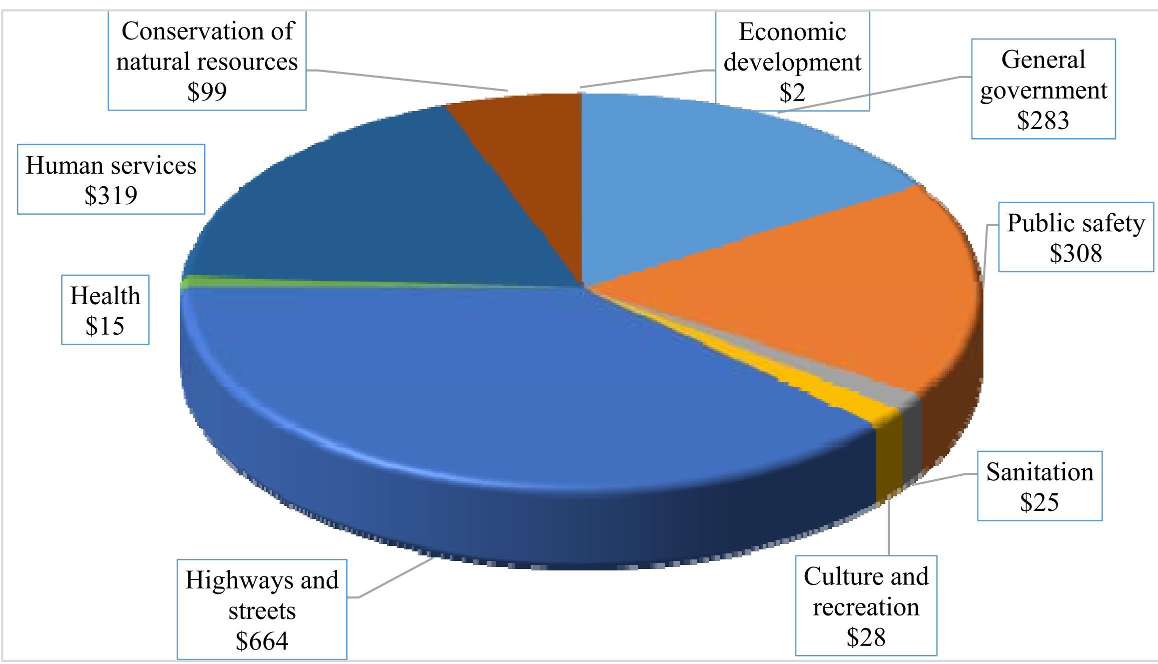


Figure A-6
Expenses Per Capita
4,055 Population as of July 1, 2015



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of $6,192,586, a decrease of $313,308 in comparison with the prior year.

The General Fund is the chief operating fund of Red Lake County. At the end of the current fiscal year, the General Fund had no unassigned fund balance, while total fund balance was $2,779,846. In 2015, fund balance in the General Fund decreased by $399,036, primarily due to the purchase of public safety equipment and the construction of a shop for the Sheriff's Department.

The fund balance of the Road and Bridge Special Revenue Fund decreased by $71,746 in 2015, primarily due to equipment purchases and additional maintenance projects.

The fund balance of the Social Services Special Revenue Fund increased by $145,826 in 2015, primarily due to additional state grant funding related to Long-Term Services and Supports (LTSS) and child protection grants.

General Fund Budgetary Highlights

Actual revenues in the General Fund were lower than budgeted revenues by $87,504, with the largest negative variance in miscellaneous revenue. Actual expenditures were higher than budgeted expenditures by $36,254, primarily due to under-budgeting the purchase of public safety equipment and the construction of a shop for the Sheriff's Department.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2015, was $37,547,919 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The total increase in Red Lake County's investment in capital assets for the current fiscal year was 0.8 percent.

Table A-7
Capital Assets
(Net of Depreciation)

	2015	2014
Land	$ 230,801	$ 230,801
Construction in progress	-	1,597,285
Infrastructure	36,054,620	34,211,606*
Buildings and improvements	244,511	170,336
Machinery and equipment	1,017,987	1,016,471
Total	$ 37,547,919	$ 37,226,499

*The January 1, 2015, balance of infrastructure, net of related accumulated depreciation, was decreased by $1,565,339 to correct a prior year overstatement.

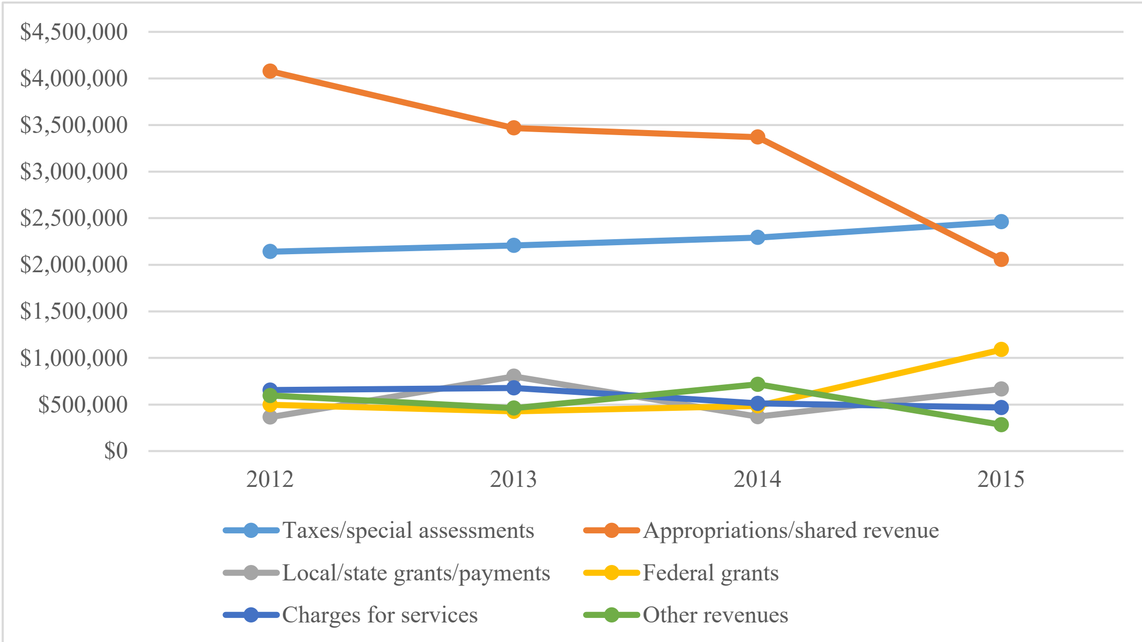
Additional information on the County's capital assets can be found in Note 2.A.3. to the financial statements.

Debt Administration

At year-end, the County had no outstanding bonded debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- Red Lake County depends on financial resources flowing from, or associated with, both the federal government and the State of Minnesota. Because of this dependency, the County is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and State laws and appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury securities because of actions by foreign governments and other holders of publicly-held U.S. Treasury securities. The following analysis focuses on the revenues of the County's governmental funds.



- The unemployment rate for Red Lake County was 8.2 percent as of December 31, 2015. This is higher than the statewide rate of 3.7 percent and the national average rate of 4.8 percent.

- Red Lake County's population at July 1, 2015, was 4,055, an decrease of 34 since 2010. This ranks Red Lake County 85th of 87 counties in the State of Minnesota.

- On December 22, 2015, Red Lake County set its 2016 revenue and expenditures budgets.

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

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015

Assets		
Cash and pooled investments	$	5,484,184
Investments		646,165
Receivables		4,120,297
Inventories		240,063
Capital assets		
Non-depreciable		230,801
Depreciable - net of accumulated depreciation		37,317,118
Total Assets	**$**	**48,038,628**
Deferred Outflows of Resources		
Deferred pension outflows	**$**	**382,667**
Liabilities		
Accounts payable and other current liabilities	$	366,168
Unearned revenue		42,438
Long-term liabilities		
Due within one year		168,976
Due in more than one year		35,531
Net other postemployment benefits obligation		231,817
Net pension liability		2,248,447
Total Liabilities	**$**	**3,093,377**
Deferred Inflows of Resources		
Deferred pension inflows	**$**	**309,171**
Net Position		
Net investment in capital assets	$	37,455,588
Restricted for		
Economic development		134,967
General government		57,228
Highways and streets		3,845,497
Public safety		12,624
Conservation of natural resources		747,434
Unrestricted		2,765,409
Total Net Position	**$**	**45,018,747**

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

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Expenses	Program Revenues: Fees, Charges, Fines, and Other	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs					
Governmental activities					
General government	$ 1,147,582	$ 114,734	$ 51,784	$ -	$ (981,064)
Public safety	1,247,176	88,109	171,087	-	(987,980)
Highways and streets	2,692,960	157,098	2,411,159	630,861	506,158
Sanitation	101,454	16,665	69,692	-	(15,097)
Human services	1,292,556	128,185	915,378	-	(248,993)
Health	60,388	-	-	-	(60,388)
Culture and recreation	112,299	-	49,461	-	(62,838)
Conservation of natural resources	399,971	205,423	40,245	-	(154,303)
Economic development	7,000	-	-	-	(7,000)
Total Governmental Activities	**$ 7,061,386**	**$ 710,214**	**$ 3,708,806**	**$ 630,861**	**$ (2,011,505)**

General Revenues	
Property taxes	$ 2,350,907
Other taxes	15,638
Payments in lieu of tax	10,052
Grants and contributions not restricted to specific programs	440,503
Miscellaneous	39,454
Unrestricted investment earnings	96,223
Total general revenues	**$ 2,952,777**
Change in net position	**$ 941,272**
Net Position - Beginning, as restated (Note 1.E.)	**44,077,475**
Net Position - Ending	**$ 45,018,747**

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT 3

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General	Road and Bridge	Social Services	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and pooled investments	$ 2,715,747	$ 764,997	$ 1,273,210	$ 606,492	$ 5,360,446
Undistributed cash in agency fund	37,146	8,702	6,438	4,019	56,305
Petty cash and change funds	715	-	-	-	715
Cash with Multi-County Housing and Redevelopment Authority	66,718	-	-	-	66,718
Investments	-	646,165	-	-	646,165
Taxes receivable					
Delinquent	30,981	9,868	7,328	-	48,177
Special assessments receivable					
Delinquent	-	-	-	1,593	1,593
Noncurrent	47,192	-	-	87,500	134,692
Accounts receivable	948	1,153	740	-	2,841
Accrued interest receivable	6,853	3,379	-	-	10,232
Due from other governments	42,061	3,725,112	139,268	15,686	3,922,127
Inventories	-	240,063	-	-	240,063
Loans receivable	635	-	-	-	635
Total Assets	**$ 2,948,996**	**$ 5,399,439**	**$ 1,426,984**	**$ 715,290**	**$ 10,490,709**
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	$ 2,703	$ 12,691	$ 27,813	$ 440	$ 43,647
Salaries payable	45,011	21,631	23,063	-	89,705
Contracts payable	-	182,377	-	-	182,377
Due to other governments	825	1,803	25,308	22,503	50,439
Unearned revenue	42,438	-	-	-	42,438
Total Liabilities	**$ 90,977**	**$ 218,502**	**$ 76,184**	**$ 22,943**	**$ 408,606**
Deferred Inflows of Resources					
Unavailable revenue	**$ 78,173**	**$ 3,714,923**	**$ 7,328**	**$ 89,093**	**$ 3,889,517**

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

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT 3
(Continued)

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General	Road and Bridge	Social Services	Nonmajor Governmental Funds	Total Governmental Funds
Liabilities, Deferred Inflows of Resources, and Fund Balances (Continued)					
Fund Balances					
Nonspendable					
Inventories	$ -	$ 240,063	$ -	$ -	$ 240,063
Loans receivable	635	-	-	-	635
Restricted for					
Attorney's forfeitures	470	-	-	-	470
Crime victims	1,392	-	-	-	1,392
Ditch repairs and maintenance	-	-	-	603,254	603,254
E-911	12,614	-	-	-	12,614
Gravel pit restoration	58,084	-	-	-	58,084
Housing rehabilitation	66,718	-	-	-	66,718
Landslide acquisition	68,249	-	-	-	68,249
Recorder's equipment	46,788	-	-	-	46,788
Recorder's technology	9,970	-	-	-	9,970
Sheriff's contingency	2,406	-	-	-	2,406
Sheriff's forfeitures	10	-	-	-	10
Highway allotments	-	251,082	-	-	251,082
Committed to					
Social services building improvement	-	-	100,000	-	100,000
Assigned to					
Ambulance replacement	51,834	-	-	-	51,834
Corrections	1,000,000	-	-	-	1,000,000
Courthouse equipment	10,500	-	-	-	10,500
Courthouse replacement	1,000,000	-	-	-	1,000,000
Environmental and recycling	248,264	-	-	-	248,264
Environmental equipment	3,000	-	-	-	3,000
House arrest	296	-	-	-	296
Public safety equipment	158,616	-	-	-	158,616
Road and bridge	-	974,869	-	-	974,869
Social services	-	-	1,243,472	-	1,243,472
Solid waste	40,000	-	-	-	40,000
Total Fund Balances	**$ 2,779,846**	**$ 1,466,014**	**$ 1,343,472**	**$ 603,254**	**$ 6,192,586**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 2,948,996**	**$ 5,399,439**	**$ 1,426,984**	**$ 715,290**	**$ 10,490,709**

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

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES DECEMBER 31, 2015

Fund balance - total governmental funds (Exhibit 3)		**$ 6,192,586**
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		37,547,919
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds.		382,667
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.		3,889,517
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Compensated absences	$ (204,507)	
Net other postemployment benefits obligation	(231,817)	
Net pension liability	(2,248,447)	(2,684,771)
Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(309,171)
Net Position of Governmental Activities (Exhibit 1)		**$ 45,018,747**

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	General	Road and Bridge	Social Services	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes	$ 1,532,568	$ 478,800	$ 346,346	$ -	$ 2,357,714
Special assessments	13,395	-	-	89,352	102,747
Licenses and permits	80	-	-	-	80
Intergovernmental	677,679	2,137,814	980,032	16,304	3,811,829
Charges for services	233,331	145,217	88,800	67	467,415
Investment earnings	90,173	6,050	-	-	96,223
Miscellaneous	117,852	29,037	39,385	250	186,524
Total Revenues	**$ 2,665,078**	**$ 2,796,918**	**$ 1,454,563**	**$ 105,973**	**$ 7,022,532**
Expenditures					
Current					
General government	$ 1,107,093	$ -	$ -	$ 250	$ 1,107,343
Public safety	1,162,638	-	-	-	1,162,638
Highways and streets	-	2,688,542	-	-	2,688,542
Sanitation	119,765	-	-	-	119,765
Human services	-	-	1,308,737	-	1,308,737
Health	39,000	-	-	-	39,000
Culture and recreation	112,192	-	-	-	112,192
Conservation of natural resources	294,682	-	-	94,075	388,757
Economic development	7,000	-	-	-	7,000
Intergovernmental	221,744	155,762	-	-	377,506
Total Expenditures	**$ 3,064,114**	**$ 2,844,304**	**$ 1,308,737**	**$ 94,325**	**$ 7,311,480**
Net Change in Fund Balances	**$ (399,036)**	**$ (47,386)**	**$ 145,826**	**$ 11,648**	**$ (288,948)**
Fund Balances - January 1	**3,178,882**	**1,537,760**	**1,197,646**	**591,606**	**6,505,894**
Increase (decrease) in inventories	**-**	**(24,360)**	**-**	**-**	**(24,360)**
Fund Balances - December 31	**$ 2,779,846**	**$ 1,466,014**	**$ 1,343,472**	**$ 603,254**	**$ 6,192,586**

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT 6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2015

Net change in fund balances - total governmental funds (Exhibit 5)		**$ (288,948)**
Amounts reported for governmental activities in the statement of activities are different because:		
In the funds, under the modified accrual basis, receivables not available for expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in unavailable revenue.		
Unavailable revenue - December 31	$ 3,889,517	
Unavailable revenue - January 1	(2,815,959)	1,073,558
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. The difference is the net book value of the assets disposed of.		
Expenditures for general capital assets and infrastructure	$ 1,550,472	
Net book value of assets disposed of	(97,160)	
Current year depreciation	(1,131,892)	321,420
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 compensated absences	$ (17,882)	
Change in net other postemployment benefits obligation	(69,277)	
Change in net pension liability, as restated	(25,759)	
Change in deferred pension outflows, as restated	281,691	
Change in deferred pension inflows	(309,171)	
Change in inventories	(24,360)	(164,758)
Change in Net Position of Governmental Activities (Exhibit 2)		**$ 941,272**

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

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FIDUCIARY FUNDS

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RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2015

Assets		
Cash and pooled investments	**$**	**170,136**
Liabilities		
Accounts payable	$	19,532
Due to other governments		150,604
Total Liabilities	**$**	**170,136**

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, 2015. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Red Lake County was established December 24, 1896, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Auditor serves as the clerk of the Board of Commissioners, but has no vote.

Joint Ventures and Jointly-Governed Organizations

The County participates in joint ventures described in Note 4.C. The County also participates in jointly-governed organizations described in Note 4.D.

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 Red Lake 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.

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      1. Government-Wide Statements (Continued)

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. The County's net position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those 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.

      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. All remaining governmental funds are aggregated and reported as nonmajor funds.

The County reports the following major governmental funds:

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

- The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as assigned property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

- The Social Services Special Revenue Fund accounts for restricted revenue resources from the federal, state, and other oversight agencies, as well as assigned property tax revenues used for economic assistance and community social services programs.

Additionally, the County reports the following funds:

- The Ditch Special Revenue Fund accounts for special assessment revenues levied against benefitted property to finance the cost of constructing and maintaining an agricultural drainage ditch system.

- The Forfeited Tax Sale Special Revenue Fund accounts for all funds received from the sale of land for forfeited taxes. Monies are held until disbursement to various entities.

- 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.

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Red Lake County considers all revenues as available if collected within 60 days after the end of the current period. Property taxes are recognized as revenues in the year for which they are levied provided they are also available. Shared revenues are generally recognized in the period the appropriation goes into effect and the revenues are available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. 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.

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2015, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds receive investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2015 were $112,534.

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."

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables (Continued)

Advances between funds, as reported in the fund financial statements, are offset by a fund balance nonspendable account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources, unless the funds are otherwise restricted, committed, or assigned.

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 or November 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

Special assessments receivable consist of delinquent special assessments payable in the years 2006 through 2015 and noncurrent special assessments payable in 2016 and after.

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

3. Inventories

All inventories are valued at cost using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

4. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (such as roads, bridges, sidewalks, and similar items) and intangible assets, are reported in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than the capitalization threshold and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The County's capitalization threshold for capital assets is as follows:

1. Summary of Significant Accounting Policies

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

4. Capital Assets (Continued)

Assets	Threshold
Land	$ 1
Construction in progress	1
All other classes of assets	5,000

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the County are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	30
Infrastructure	50 - 75
Machinery and equipment	5 - 15

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation, paid time off (PTO), sick leave, and compensatory time. As of June 22, 2015, the County amended its personnel policy such that all non-union employees were provided a PTO benefit, replacing vacation and sick leave. All unused accrued vacation balances for non-union employees were converted hour-for-hour to the new PTO account of each employee. All unused accrued sick leave balances for non-union employees were converted hour-for-hour to a severance bank. Employees can use the severance bank as they would have under the previous sick leave policy, but will accrue no additional hours into the severance bank.

1. Summary of Significant Accounting Policies

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

5. Compensated Absences (Continued)

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. A liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide financial statements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion consists of the lesser of the year-end vacation and PTO balances, or the amount that can be accrued in one year, and all sick leave, severance bank, and compensatory time balances. The compensated absences liability is liquidated by the General Fund and the Road and Bridge and the Social Services Special Revenue Funds.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

At December 31, 2015, Red Lake County reported no bonded debt.

7. Pension Plan

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

1. Summary of Significant Accounting Policies

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a 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. Currently, 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 projected and actual earnings on pension plan investments, and also 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 (revenue or reduction of expense) until that time. The County has two such items that qualify for reporting in this category. The governmental funds report unavailable revenue from delinquent taxes receivable, delinquent and deferred special assessments receivable, and grant monies receivable for amounts that are not considered to be available to liquidate liabilities of the current period. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The County also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also 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)

9. Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned. In the current year, all unearned revenue was the result of grants received prior to the revenue recognition criteria being met.

10. Classification of Net Position

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

- Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

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

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

11. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which Red Lake 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.

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)

- 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.

- 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 not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Auditor, 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.

Red Lake 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.

1. Summary of Significant Accounting Policies

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

12. Minimum Fund Balance

Red Lake County has adopted a minimum fund balance policy for the General Fund. The General Fund is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) of no less than 40 percent of the next year's budgeted expenditures. The Fund Balance Policy was adopted by the County Board on December 27, 2011. At December 31, 2015, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

13. Stabilization Arrangements

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. The County Board will set aside amounts by resolution as deemed necessary that can only be expended when in the event of a natural disaster that exist as the need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely.

At December 31, 2015, Red Lake County reported no stabilization arrangements.

14. 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.

1. Summary of Significant Accounting Policies (Continued)

E. Restatement of Fund Balance and Net Position

1. Change in Accounting Principles

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

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

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statement No. 67, No. 68, and No. 73*, modifies the measure of payroll that is presented in the required supplementary information schedule.

GASB Statements 68 and 71 require the County to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the County's net pension liability and related deferred outflows of resources, as disclosed in Note 1.E.3.

2. Prior Period Adjustment

The January 1, 2015, net position was decreased to correct a prior year overstatement of governmental activities' infrastructure, net of related accumulated depreciation, as disclosed in Note 1.E.3.

1. Summary of Significant Accounting Policies

E. Restatement of Fund Balance and Net Position (Continued)

3. Restatement of Net Position

Restatements of net position for the governmental activities are as follows:

	Governmental Activities
Net Position, January 1, 2015, as previously reported	$ 47,764,526
Change in accounting principles	
Net pension liability	(2,222,688)
Deferred outflows of resources	100,976
Restatement of net positon	
Adjustment for capital assets	(1,565,339)
Net Position, January 1, 2015, as restated	$ 44,077,475

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments follows:

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	$ 5,484,184
Investments	646,165
Statement of fiduciary net position	
Cash and pooled investments	170,136
Total Cash and Investments	$ 6,300,485

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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's policy is to minimize deposit custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2015, 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 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.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County’s policy is to minimize interest rate risk by: (1) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby

2. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments

         b. Investments

Interest Rate Risk (Continued)

avoiding the need to sell securities in the open market; and (2) investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools.

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 policy to invest only in securities that meet the ratings requirements set by state statute.

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's policy is to minimize custodial credit risk by permitting brokers that obtain investments for the County to hold them only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage is available. At December 31, 2015, the County's investments were not exposed 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 policy is to diversify the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

2. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments (Continued)

The following table presents the County's cash and investment balances at December 31, 2015, and information relating to potential investment risks:

Investment - Issuer	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Over 5 Percent of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
U.S. government agency securities					
Federal Home Loan Bank Bond	AA+	S&P		05/20/2020	$ 199,280
Federal Farm Credit Bank Bond	AA+	S&P	>5%	09/21/2021	$ 646,165
Negotiable certificates of deposit					
Comenity Bank	NR	N/A		12/19/2016	$ 200,482
Sallie Mae Bank, Utah	NR	N/A	>5%	11/20/2018	247,323
Goldman Sachs Bank	NR	N/A	>5%	07/05/2019	247,278
CIT Bank CD	NR	N/A	>5%	08/01/2019	245,365
American Express Centurion Bank	NR	N/A	>5%	11/29/2019	247,065
JP Morgan Chase Bank	NR	N/A		03/19/2020	200,665
Mizrahi Tefahot Bank CD	NR	N/A		11/30/2021	98,828
Total negotiable certificates of deposit					$ 1,487,006
Mutual fund					
GNMA Mutual Fund	NR	N/A	>5%	N/A	$ 2,133,467
Total investments					$ 4,465,918
Checking					429,779
Savings					1,337,355
Cash with Northwest Minnesota Multi-County Housing and Redevelopment Authority					66,718
Petty cash					715
Total Cash and Investments					$ 6,300,485

N/A - Not Applicable
NR - Not Rated
>5% - Concentration is more than 5% of investments

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2015, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Receivables		
Taxes	$ 48,177	$ -
Special assessments	136,285	37,754
Accounts	2,841	-
Loans	635	-
Accrued interest	10,232	-
Due from other governments	3,922,127	-
Total Governmental Activities	$ 4,120,297	$ 37,754

3. Capital Assets

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

	Beginning Balance (Restated, Note 1.E.3.)	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 230,801	$ -	$ -	$ 230,801
Construction in progress	1,597,285	1,183,706	2,780,991	-
Total capital assets not depreciated	$ 1,828,086	$ 1,183,706	$ 2,780,991	$ 230,801
Capital assets depreciated				
Buildings and improvements	$ 1,228,688	$ 97,965	$ -	$ 1,326,653
Machinery and equipment	3,163,279	268,801	343,912	3,088,168
Infrastructure	48,233,264	2,780,991	-	51,014,255
Total capital assets depreciated	$ 52,625,231	$ 3,147,757	$ 343,912	$ 55,429,076

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance (Restated (Note 1.E.3.)	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings and improvements	$ 1,058,352	$ 23,790	$ -	$ 1,082,142
Machinery and equipment	2,146,808	170,125	246,752	2,070,181
Infrastructure	14,021,658	937,977	-	14,959,635
Total accumulated depreciation	$ 17,226,818	$ 1,131,892	$ 246,752	$ 18,111,958
Total capital assets depreciated, net	$ 35,398,413	$ 2,015,865	$ 97,160	$ 37,317,118
Capital Assets, Net	$ 37,226,499	$ 3,199,571	$ 2,878,151	$ 37,547,919

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

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

B. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2015, were as follows:

Accounts payable	$ 43,647
Salaries payable	89,705
Contracts payable	182,377
Due to other governments	50,439
Total	$ 366,168

2. Detailed Notes on All Funds

B. Liabilities and Deferred Inflows of Resources (Continued)

2. Construction Commitments

The County has active construction projects and other commitments as of December 31, 2015. The projects and commitments include the following:

	Spent-to-Date	Remaining Commitment
E-911 system - General Fund	$ -	$ 171,230
Gravel crushing - Road and Bridge Special Revenue Fund	111,253	44,697
Total Construction Commitments	$ 111,253	$ 215,927

Construction commitments for highway projects are state-funded and, therefore, are not obligations of the County at December 31, 2015.

3. Deferred Inflows of Resources - Unavailable Revenue

Deferred inflows of resources - unavailable revenue consists of special assessments, taxes, and state grants not collected soon enough after year-end to pay liabilities of the current period. Deferred inflows of resources - unavailable revenue at December 31, 2015, are summarized below by fund:

	Special Assessments	Taxes	Grants	Total
Major governmental funds				
General	$ 47,192	$ 30,981	$ -	$ 78,173
Special Revenue				
Road and Bridge	-	9,868	3,705,055	3,714,923
Social Services	-	7,328	-	7,328
Nonmajor governmental fund				
Ditch	89,093	-	-	89,093
Total Unavailable Revenue	$ 136,285	$ 48,177	$ 3,705,055	$ 3,889,517

2. Detailed Notes on All Funds

B. Liabilities and Deferred Inflows of Resources (Continued)

4. Compensated Absences

Changes in compensated absences for the year ended December 31, 2015, were:

Payable at January 1	$ 186,625
Additions	160,002
Deductions	142,120
Payable at December 31	$ 204,507

Of the total compensated absences of $204,507, the amount due within one year is $168,976.

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

All full-time and certain part-time employees of Red Lake County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund and the Public Employees Police and Fire Fund, 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.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan and benefits vest after five years of credited service.

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after 10 years and increasing 5 percent for each year of service until fully vested after 20 years.

2. 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. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 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 1.0 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 public service.

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service.

For General Employees Retirement Fund 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 Public Employees Police and Fire Fund members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 55. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. 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 Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015. Public Employees Police and Fire Fund members were required to contribute 10.80 percent of their annual covered salary in 2015.

In 2015, the County was required to contribute the following percentages of annual covered payroll:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.50
Public Employees Police and Fire Fund	16.20

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

3. Contributions (Continued)

The General Employees Retirement Fund Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014. The Public Employees Police and Fire Fund member and employer contribution rates increased 0.60 percent and 0.90 percent, respectively, from 2014.

The County's contributions for the year ended December 31, 2015, to the pension plans were:

General Employees Retirement Fund	$	152,311
Public Employees Police and Fire Fund		67,202

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

4. Pension Costs

General Employees Retirement Fund

At December 31, 2015, the County reported a liability of $1,725,779 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.0333 percent. It was 0.0372 percent measured as of June 30, 2014. The County recognized pension expense of $183,800 for its proportionate share of the General Employees Retirement Fund's pension expense.

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

The County reported its proportionate share of the General Employees Retirement Fund'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	$ -	$ 87,009
Difference between projected and actual investment earnings	163,371	-
Changes in proportion	-	137,402
Contributions paid to PERA subsequent to the measurement date	76,956	-
Total	$ 240,327	$ 224,411

The $76,956 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

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

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Police and Fire Fund

At December 31, 2015, the County reported a liability of $522,668 for its proportionate share of the Public Employees Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.046 percent. It was 0.044 percent measured as of June 30, 2014. The County recognized pension expense of $93,092 for its proportionate share of the Public Employees Police and Fire Fund's pension expense.

The County also recognized $4,140 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 Public Employees Police and Fire Fund. Legislation requires the State of Minnesota to contribute $9 million to the Public Employees Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90 percent funded.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 84,760
Difference between projected and actual investment earnings	91,066	-
Changes in proportion	18,001	-
Contributions paid to PERA subsequent to the measurement date	33,273	-
Total	$ 142,340	$ 84,760

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

The $33,273 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	$ 9,415
2017	9,415
2018	9,415
2019	9,415
2020	(13,353)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2015, was $276,892.

5. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Fund and the Public Employees Police and Fire Fund, cost of living benefit increases for retirees are assumed to be 1.0 percent effective every January 1 through 2035 and 2037, respectively, and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for the Public Employees Police and Fire Fund was for the period July 1 2004, through June 30, 2009.

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.90 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:

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

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

6. Discount Rate

The discount rate used to measure the total pension liability was 7.90 percent. The discount rate did not change since the prior measurement date. 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, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the			
General Employees Retirement Fund net pension liability	$ 2,713,538	$ 1,725,779	$ 910,042
Public Employees Police and Fire Fund net pension liability	1,018,685	522,668	112,871

8. 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.

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

9. Subsequent Changes

Subsequent to 2015, Red Lake County's net pension liability for each plan increased substantially. The increase in the net pension liability is offset by deferred outflows of resources, deferred inflows of resources, and pension expense.

B. Defined Contribution Plan

Four Commissioners of Red Lake 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 the County during the year ended December 31, 2015, were:

	Employee	Employer
Contribution amount	$ 3,303	$ 3,303
Percentage of covered payroll	5%	5%

3. Pension Plans and Other Postemployment Benefits (Continued)

C. Other Postemployment Benefits (OPEB)

Plan Description

Red Lake County provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. The retiree health care plan does not issue a publicly available financial report.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Red Lake County Board of Commissioners. Retirees are required to pay 100 percent of the premium costs. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2015, there were 64 participants in the plan. The implicit rate subsidy amount was determined by an actuarial study to be $7,263 for 2015.

The OPEB liability is liquidated through the General Fund and the Road and Bridge and the Social Services Special Revenue Funds.

Annual OPEB Cost and Net OPEB Obligation

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

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

ARC	$	79,255
Interest on net OPEB obligation		6,502
Adjustment to ARC		(9,217)
Annual OPEB cost	$	76,540
Contributions made during the year		(7,263)
Increase in net OPEB obligation	$	69,277
Net OPEB Obligation - Beginning of Year		162,540
Net OPEB Obligation - End of Year	$	231,817

The County's annual OPEB cost for the year ended December 31, 2015, was $76,540. The percentage of OPEB cost contributed to the plan was 9.5 percent, and the net OPEB obligation as of December 31, 2015, was $231,817.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for year ended December 31, 2015, was as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2015	$ 76,540	$ 7,263	9.5%	$ 231,817

This schedule is intended to show information for three years. For the first time, in 2015, Red Lake County used actuarial assistance in the preparation of the other postemployment benefits liability and disclosure information using the alternative measurement method. Due to significant differences from the amounts presented in previous years, only one year is presented. Additional years will be provided as the information is available.

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial accrued liability for benefits was $424,738, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $424,738. The covered payroll (annual payroll of active employees covered by the plan) was $2,555,247, and the ratio of the UAAL to the covered payroll was 16.6 percent.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2015, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.00 percent investment rate of return (net of investment expenses), which is Red Lake County’s implicit rate of return on the General Fund. The annual health care cost trend is 7.25 percent initially, reduced by decrements to an ultimate rate of 5.00 percent over 9 years. Both rates included a 2.50 percent inflation assumption. The UAAL is being amortized as a level dollar amount over 30 years on a closed basis. The remaining amortization period at December 31, 2015, was 30 years.

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. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For group employee health benefits, the County has entered into a joint powers agreement, the Northwest Service Cooperative. For all other risk, the County carries commercial insurance. There 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 $490,000 per claim in 2015 and $500,000 in 2016. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

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

B. Contingent Liabilities

Amounts received or receivable from grantor 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.

Red Lake County, in connection with the normal conduct of its affairs, may be involved in various claims, judgments, and litigation.

Enbridge Inc. is currently challenging tax valuations for the years 2012 through 2017 through litigation, which may affect several Minnesota counties. For tax valuations for years 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 is dependent on the outcome of the lawsuit. The County and its taxing districts may forego future tax revenues of up to $4,180,000.

Current litigation resulting from a previous road project may require the County to report up to $200,000 of additional expenditures in the future.

C. Joint Ventures

Inter-County Nursing Service

The Inter-County Nursing Service was formed in 1978 under the authority of Minn. Stat. § 145A.03, subd. 2, and includes Pennington and Red Lake Counties. The purpose of the Nursing Service is to provide, through visits to individuals' homes, skilled public nursing care on a part-time or intermittent basis to residents of Pennington and Red Lake Counties.

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

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Inter-County Nursing Service (Continued)

The Nursing Service has no long-term debt. Financing is provided by the state and federal grants, charges for services, and appropriations from the two counties. Red Lake County contributed $21,388 to the Nursing Service for the year ended December 31, 2015. Pennington County, in an agent capacity, reports the cash transactions of the Nursing Service as an agency fund on its financial statements.

Complete financial information can be obtained from the Pennington County Auditor-Treasurer's Office or at the Nursing Service's office, P. O. Box 616, Thief River Falls, Minnesota 56701.

Tri-County Community Corrections

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

Control is vested in the Tri-County Community Corrections Joint Powers Board, composed of two County Commissioners from each member county, as provided in Tri-County Community Corrections' bylaws.

In the event of dissolution of the Tri-County Community Corrections Joint Powers Board, the net position of Tri-County Community Corrections at that time shall be divided among the member counties in agreed-upon proportions of Norman County (10 percent), Polk County (85 percent), and Red Lake County (5 percent).

Financing is provided by state, federal, and local grants; charges for services; and appropriations from member counties. Polk County, in an investment trust fund, reports the transactions of Tri-County Community Corrections on its financial statements. Red Lake County's contribution for 2015 was $200,356.

Complete financial information can be obtained from the Polk County Auditor's Office or the Northwest Regional Corrections Center located at 816 Marin Avenue, Suite 110, Crookston, Minnesota 56716.

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

D. Jointly-Governed Organizations

Red Lake County, in conjunction with other governmental entities and various private organizations, has formed the jointly-governed organizations listed below:

Northwest Minnesota Multi-County Housing and Redevelopment Authority

The Northwest Minnesota Multi-County Housing and Redevelopment Authority (HRA) was formed pursuant to Minn. Stat. § 469.004, effective September 1972, and includes Kittson, Marshall, Pennington, Polk, Red Lake, and Roseau Counties. Control of the HRA is vested in the HRA Board, which is composed of six members with indefinite terms, made up of one member appointed by each Board of County Commissioners. Red Lake County's responsibility does not extend beyond making this appointment.

Northwest Regional Library

The Northwest Regional Library was formed pursuant to Minn. Stat. §§ 134.20 and 471.59, effective January 1, 1981, and includes Kittson, Marshall, Pennington, Red Lake, and Roseau Counties. Control of the Library is vested in the Northwest Regional Library Board, which is composed of 16 members with staggered terms made up of the following: one member appointed by each Board of County Commissioners who may be a member of the Board of Commissioners; one member appointed by each participating city; and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. Red Lake County appropriated $26,732 to the Library for the year ended December 31, 2015.

Red Lake Watershed District

The Red Lake Watershed District was formed pursuant to Minn. Stat. § 103D.201-.231, effective January 25, 1969, and includes all of Red Lake County, most of Pennington County, and parts of Beltrami, Clearwater, Itasca, Koochiching, Mahnomen, Marshall, Polk, and Roseau Counties. Control of the District is vested in the Red Lake Watershed District Board of Managers, which is composed of seven members having staggered terms of three years each, with two appointed by the Polk County Board and one each appointed by the County Boards of Beltrami, Clearwater, Marshall, Pennington, and Red Lake. Red Lake County's responsibility does not extend beyond making this appointment.

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REQUIRED SUPPLEMENTARY INFORMATION

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RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT A-1

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,631,089	$ 1,631,089	$ 1,532,568	$ (98,521)
Special assessments	-	-	13,395	13,395
Licenses and permits	1,550	1,550	80	(1,470)
Intergovernmental	549,892	549,892	677,679	127,787
Charges for services	198,870	198,870	233,331	34,461
Investment earnings	150,000	150,000	90,173	(59,827)
Miscellaneous	221,181	221,181	117,852	(103,329)
Total Revenues	**$ 2,752,582**	**$ 2,752,582**	**$ 2,665,078**	**$ (87,504)**
Expenditures				
Current				
General government				
Commissioners	$ 152,715	$ 152,715	$ 143,685	$ 9,030
Court administrator	11,500	11,500	7,500	4,000
Law library	1,660	1,660	1,066	594
Auditor	174,669	174,669	150,162	24,507
Treasurer	113,015	113,015	110,300	2,715
Elections	2,000	2,000	5,918	(3,918)
Human resources	62,174	62,174	67,216	(5,042)
Attorney	154,109	154,109	153,668	441
Recorder	116,843	116,843	90,811	26,032
Assessor	110,579	110,579	96,206	14,373
Buildings	96,143	96,143	87,279	8,864
Veterans service officer	21,520	21,520	21,459	61
Motor vehicle	8,522	8,522	8,514	8
Other general government	158,982	158,982	163,309	(4,327)
Total general government	**$ 1,184,431**	**$ 1,184,431**	**$ 1,107,093**	**$ 77,338**

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

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT A-1
(Continued)

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

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 860,207	$ 860,207	$ 1,019,795	$ (159,588)
Coroner	10,500	10,500	9,351	1,149
E-911 system	73,587	73,587	65,708	7,879
Emergency services	28,728	28,728	34,060	(5,332)
Crime victim assistance	29,257	29,257	33,724	(4,467)
Total public safety	**$ 1,002,279**	**$ 1,002,279**	**$ 1,162,638**	**$ (160,359)**
Sanitation				
Recycling	$ 78,955	$ 78,955	$ 86,761	$ (7,806)
ISTS administration	18,941	18,941	22,393	(3,452)
Solid waste	10,100	10,100	10,611	(511)
Total sanitation	**$ 107,996**	**$ 107,996**	**$ 119,765**	**$ (11,769)**
Health				
Ambulance	**$ 39,000**	**$ 39,000**	**$ 39,000**	**$ -**
Culture and recreation				
Historical society	$ 2,000	$ 2,000	$ 2,000	$ -
Parks	5,900	5,900	8,385	(2,485)
Snowmobile and ski trails	50,000	50,000	50,960	(960)
Regional library	32,232	32,232	32,232	-
Senior citizens	8,360	8,360	8,360	-
Other	10,255	10,255	10,255	-
Total culture and recreation	**$ 108,747**	**$ 108,747**	**$ 112,192**	**$ (3,445)**

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

EXHIBIT A-1
(Continued)

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Conservation of natural resources				
Environmental	$ 172,125	$ 172,125	$ 117,964	$ 54,161
Extension	88,207	88,207	87,344	863
Soil and water conservation	95,868	95,868	89,267	6,601
Other	107	107	107	-
Total conservation of natural resources	**$ 356,307**	**$ 356,307**	**$ 294,682**	**$ 61,625**
Economic development				
Community development	**$ 800**	**$ 800**	**$ 7,000**	**$ (6,200)**
Intergovernmental				
Public safety	$ 206,912	$ 206,912	$ 200,356	$ 6,556
Health	21,388	21,388	21,388	-
Total intergovernmental	**$ 228,300**	**$ 228,300**	**$ 221,744**	**$ 6,556**
Total Expenditures	**$ 3,027,860**	**$ 3,027,860**	**$ 3,064,114**	**$ (36,254)**
Net Change in Fund Balance	**$ (275,278)**	**$ (275,278)**	**$ (399,036)**	**$ (123,758)**
Fund Balance - January 1	**3,178,882**	**3,178,882**	**3,178,882**	**-**
Fund Balance - December 31	**$ 2,903,604**	**$ 2,903,604**	**$ 2,779,846**	**$ (123,758)**

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

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT A-2

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 409,500	$ 409,500	$ 478,800	$ 69,300
Intergovernmental	2,623,000	2,623,000	2,137,814	(485,186)
Charges for services	220,000	220,000	145,217	(74,783)
Investment earnings	5,000	5,000	6,050	1,050
Miscellaneous	48,000	48,000	29,037	(18,963)
Total Revenues	**$ 3,305,500**	**$ 3,305,500**	**$ 2,796,918**	**$ (508,582)**
Expenditures				
Current				
Highways and streets				
Administration	$ 408,800	$ 408,800	$ 316,008	$ 92,792
Maintenance	1,817,700	1,817,700	1,324,778	492,922
Construction	1,509,000	1,509,000	957,617	551,383
Equipment and maintenance shops	85,000	85,000	90,139	(5,139)
Total highways and streets	**$ 3,820,500**	**$ 3,820,500**	**$ 2,688,542**	**$ 1,131,958**
Intergovernmental				
Highways and streets	-	-	155,762	(155,762)
Total Expenditures	**$ 3,820,500**	**$ 3,820,500**	**$ 2,844,304**	**$ 976,196**
Net Change in Fund Balance	**$ (515,000)**	**$ (515,000)**	**$ (47,386)**	**$ 467,614**
Fund Balance - January 1	**1,537,760**	**1,537,760**	**1,537,760**	**-**
Increase (decrease) in inventories	**-**	**-**	**(24,360)**	**(24,360)**
Fund Balance - December 31	**$ 1,022,760**	**$ 1,022,760**	**$ 1,466,014**	**$ 443,254**

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

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT A-3

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 426,574	$ 426,574	$ 346,346	$ (80,228)
Intergovernmental	594,072	594,072	980,032	385,960
Charges for services	171,150	171,150	88,800	(82,350)
Miscellaneous	169,292	169,292	39,385	(129,907)
Total Revenues	**$ 1,361,088**	**$ 1,361,088**	**$ 1,454,563**	**$ 93,475**
Expenditures				
Current				
Human services				
Income maintenance	$ 693,916	$ 693,916	$ 762,856	$ (68,940)
Social services	667,172	667,172	545,881	121,291
Total Expenditures	**$ 1,361,088**	**$ 1,361,088**	**$ 1,308,737**	**$ 52,351**
Net Change in Fund Balance	**$ -**	**$ -**	**$ 145,826**	**$ 145,826**
Fund Balance - January 1	**1,197,646**	**1,197,646**	**1,197,646**	**-**
Fund Balance - December 31	**$ 1,197,646**	**$ 1,197,646**	**$ 1,343,472**	**$ 145,826**

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

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT A-4

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2015	$ -	$ 424,738	$ 424,738	0.00%	$ 2,555,247	16.6%

This schedule is intended to show information for three years. For the first time, in 2015, Red Lake County used actuarial assistance in the preparation of the other postemployment benefits liability and disclosure information using the alternative measurement method. Due to significant differences in the amounts presented in previous years, only one year is presented. Additional years will be provided as the information is available.

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT A-5

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015

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
2015	0.0333%	$ 1,725,779	$ 1,935,952	89.14%	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.

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT A-6

SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015

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)
2015	$ 152,311	$ 152,311	$ -	$ 2,030,806	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.

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT A-7

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE FUND
DECEMBER 31, 2015

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
2015	0.046%	$ 522,668	$ 417,734	125.12%	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.

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT A-8

SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE FUND
DECEMBER 31, 2015

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)
2015	$ 67,202	$ 67,202	$ -	$ 414,825	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.

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

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except for the Ditch and Forfeited Tax Sale Special Revenue Funds. All annual appropriations lapse at fiscal year-end.

On or before the second week of August of each year, all departments and agencies submit requests for appropriations to the County Auditor so that a budget can be prepared. Before September 15, the proposed budget is presented to the County Board for review. The Board holds a public hearing, and then a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. During the year, the Board made no budgetary amendments.

2. Excess of Expenditures Over Budget

The following departments had expenditures in excess of budget for the year ended December 31, 2015:

	Expenditures	Final Budget	Excess
General Fund			
Current			
General government			
Elections	$ 5,918	$ 2,000	$ 3,918
Human resources	67,216	62,174	5,042
Other general government	163,309	158,982	4,327
Public safety			
Sheriff	1,019,795	860,207	159,588
Emergency services	34,060	28,728	5,332
Crime victim assistance	33,724	29,257	4,467

2. Excess of Expenditures Over Budget (Continued)

	Expenditures	Final Budget	Excess
General Fund			
Current (Continued)			
Sanitation			
Recycling	86,761	78,955	7,806
ISTS administration	22,393	18,941	3,452
Solid waste	10,611	10,100	511
Culture and recreation			
Parks	8,385	5,900	2,485
Snowmobile and ski trails	50,960	50,000	960
Economic development			
Community development	7,000	800	6,200
Road and Bridge Special Revenue Fund			
Current			
Highways and streets			
Equipment and maintenance shops	90,139	85,000	5,139
Intergovernmental			
Highways and streets	155,762	-	155,762
Social Services Special Revenue Fund			
Current			
Human services			
Income maintenance	762,856	693,916	68,940

3. Other Postemployment Benefits

Governmental Accounting Standards Board Statement 45 requires a Schedule of Funding Progress - Other Postemployment Benefits for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported. For the first time, in 2015, Red Lake County used actuarial assistance in the preparation of the other postemployment benefits liability and disclosure information using the alternative measurement method. Due to significant differences from the amounts presented in previous years, only one year is presented. Additional years will be provided as the information is available.

3. Other Postemployment Benefits (Continued)

Significant Actuarial Assumptions

2015

Actuarial Assumptions

- The health care trend rates anticipate short-term and long-term medical increases.
- The discount rate is 4.00 percent.
- The percentage of active employees who are assumed to be married is 85 percent for males and 65 percent for females, with males assumed to be three years older than females.
- The percentage of future retirees who are assumed to continue on the County's medical plan post-employment is 50 percent.
- The percentage of future spouses of retirees who are assumed to continue on the County's medical plan post-employment is 25 percent.
- The mortality table used was the RP-2014 White Collar mortality table with MP-2014 Generational Improvement Scale (Blue Collar Tables for Police and Fire Personnel).
- Retirement and withdrawal assumptions are used similar to those used to value pension liabilities for Minnesota public employees. The state pension plans base their assumptions on periodic experience studies.

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SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

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RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

NONMAJOR GOVERNMENTAL FUNDS

The Ditch Special Revenue Fund accounts for and reports the operation and maintenance of County, judicial, and state drainage systems. Financing is provided by special assessments levied against benefited properties restricted for conservation of natural resources.

The Forfeited Tax Sale Special Revenue Fund accounts for and reports proceeds from the sale or rental of lands forfeited to the State of Minnesota pursuant to Minn. Stat. § 282.

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RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT B-1

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	Special Revenue Funds		
	Ditch	Forfeited Tax Sale	Total
Assets			
Cash and pooled investments	$ 601,135	$ 5,357	$ 606,492
Undistributed cash in agency fund	4,019	-	4,019
Special assessments receivable			
Delinquent	1,593	-	1,593
Noncurrent	87,500	-	87,500
Due from other governments	15,686	-	15,686
Total Assets	**$ 709,933**	**$ 5,357**	**$ 715,290**
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	$ 440	$ -	$ 440
Due to other governments	17,146	5,357	22,503
Total Liabilities	**$ 17,586**	**$ 5,357**	**$ 22,943**
Deferred Inflows of Resources			
Unavailable revenue	**$ 89,093**	**$ -**	**$ 89,093**
Fund Balances			
Restricted for			
Ditch repairs and maintenance	**$ 603,254**	**$ -**	**$ 603,254**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 709,933**	**$ 5,357**	**$ 715,290**

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Special Revenue Funds		
	Ditch	Forfeited Tax Sale	Total
Revenues			
Special assessments	$ 89,352	$ -	$ 89,352
Intergovernmental	16,304	-	16,304
Charges for services	67	-	67
Miscellaneous	-	250	250
Total Revenues	**$ 105,723**	**$ 250**	**$ 105,973**
Expenditures			
Current			
General government	$ -	$ 250	$ 250
Conservation of natural resources	94,075	-	94,075
Total Expenditures	**$ 94,075**	**$ 250**	**$ 94,325**
Net Change in Fund Balances	**$ 11,648**	**$ -**	**$ 11,648**
Fund Balances - January 1	**591,606**	**-**	**591,606**
Fund Balances - December 31	**$ 603,254**	**$ -**	**$ 603,254**

FIDUCIARY FUNDS

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AGENCY FUNDS

Children's Initiative/Family Service Collaborative - to account for receipts and disbursements for the Collaborative.

Flexible Spending - to account for the payroll deductions of employees enrolled in the flexible spending program.

Insurance - to account for the employer's share of group insurance. Funds are provided for payment of premiums from the General Fund and special revenue funds.

Northwest Minnesota Multi-County Housing and Redevelopment Authority - to account for the collection and payment of funds due to the Northwest Minnesota Multi-County Housing and Redevelopment Authority.

Northwest Regional Development Commission - to account for the collection and payment of funds due to the Northwest Regional Development Commission.

Prepaid Taxes - to account for the payment of taxes prior to the preparation of tax statements or prior to January 1 of the year due.

School Districts - to account for the collection and payment of funds due to school districts.

Social Welfare - to account for the collection and disbursement of funds held on behalf of individuals in the Social Welfare program.

State Revenue - to account for the collection and payment of funds due to the State of Minnesota.

Taxes and Penalties - to account for the collection and distribution of taxes and penalties for the various taxing districts of the County.

Towns and Cities - to account for the collection and payment of funds due to townships and cities.

Watershed - to account for the collection and distribution of taxes and payment of funds due to the Red Lake Watershed District.

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RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT C-1

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

	Balance January 1	Additions	Deductions	Balance December 31
CHILDREN'S INITIATIVE/FAMILY SERVICE COLLABORATIVE				
Assets				
Cash and pooled investments	$ 4,311	$ 25,941	$ 1,799	$ 28,453
Liabilities				
Due to other governments	$ 4,311	$ 25,941	$ 1,799	$ 28,453
FLEXIBLE SPENDING				
Assets				
Cash and pooled investments	$ 3,270	$ 33,190	$ 32,797	$ 3,663
Liabilities				
Accounts payable	$ 3,270	$ 33,190	$ 32,797	$ 3,663
INSURANCE				
Assets				
Cash and pooled investments	$ -	$ 591,899	$ 591,899	$ -
Liabilities				
Accounts payable	$ -	$ 591,899	$ 591,899	$ -

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT C-1
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
NORTHWEST MINNESOTA MULTI-COUNTY HOUSING AND REDEVELOPMENT AUTHORITY				
Assets				
Cash and pooled investments	$ -	$ 25,947	$ 25,947	$ -
Liabilities				
Due to other governments	$ -	$ 25,947	$ 25,947	$ -
NORTHWEST REGIONAL DEVELOPMENT COMMISSION				
Assets				
Cash and pooled investments	$ -	$ 10,615	$ 10,615	$ -
Liabilities				
Due to other governments	$ -	$ 10,615	$ 10,615	$ -
PREPAID TAXES				
Assets				
Cash and pooled investments	$ 722	$ 7,556	$ 6,248	$ 2,030
Liabilities				
Due to other governments	$ 722	$ 7,556	$ 6,248	$ 2,030

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT C-1
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
SCHOOL DISTRICTS				
Assets				
Cash and pooled investments	$ -	$ 1,745,917	$ 1,745,917	$ -
Liabilities				
Due to other governments	$ -	$ 1,745,917	$ 1,745,917	$ -
SOCIAL WELFARE				
Assets				
Cash and pooled investments	$ 16,520	$ 127,906	$ 128,557	$ 15,869
Liabilities				
Accounts payable	$ 16,520	$ 127,906	$ 128,557	$ 15,869
STATE REVENUE				
Assets				
Cash and pooled investments	$ 8,753	$ 1,124,381	$ 1,119,135	$ 13,999
Liabilities				
Due to other governments	$ 8,753	$ 1,124,381	$ 1,119,135	$ 13,999

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT C-1
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 83,087	$ 7,316,864	$ 7,293,829	$ 106,122
Due from other funds	722	-	722	-
Total Assets	**$ 83,809**	**$ 7,316,864**	**$ 7,294,551**	**$ 106,122**
Liabilities				
Due to other governments	**$ 83,809**	**$ 7,316,864**	**$ 7,294,551**	**$ 106,122**
TOWNS AND CITIES				
Assets				
Cash and pooled investments	**$ 343**	**$ 1,700,572**	**$ 1,700,915**	**$ -**
Liabilities				
Due to other governments	**$ 343**	**$ 1,700,572**	**$ 1,700,915**	**$ -**
WATERSHED				
Assets				
Cash and pooled investments	**$ -**	**$ 254,901**	**$ 254,901**	**$ -**
Liabilities				
Due to other governments	**$ -**	**$ 254,901**	**$ 254,901**	**$ -**

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT C-1
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 117,006	$ 12,965,689	$ 12,912,559	$ 170,136
Due from other funds	722	-	722	-
Total Assets	**$ 117,728**	**$ 12,965,689**	**$ 12,913,281**	**$ 170,136**
Liabilities				
Accounts payable	$ 19,790	$ 752,995	$ 753,253	$ 19,532
Due to other governments	97,938	12,212,694	12,160,028	150,604
Total Liabilities	**$ 117,728**	**$ 12,965,689**	**$ 12,913,281**	**$ 170,136**

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OTHER SCHEDULES

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RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT D-1

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

Appropriations and Shared Revenue		
State		
Highway users tax	$	1,416,711
County program aid		280,242
PERA rate reimbursement		8,965
Disparity reduction aid		51,933
Police aid		47,854
Enhanced 911		73,587
Market value credit		99,363
Select Committee on Recycling and the Environment (SCORE)		69,692
Aquatic invasive species aid		7,154
Total appropriations and shared revenue	**$**	**2,055,501**
Reimbursement for Services		
State		
Minnesota Department of Human Services	$	158,084
Local		
Polk County		14,426
Pennington County		1,878
Total reimbursement for services	**$**	**174,388**
Payments		
Local		
Payments in lieu of taxes	$	10,052
Local contributions		19,776
Total payments	**$**	**29,828**
Grants		
State		
Minnesota Department/Board/Office of		
Human Services	$	335,990
Natural Resources		49,461
Public Safety		25,256
Transportation		4,036
Water and Soil Resources		39,989
Veterans Affairs		7,500
Total state	**$**	**462,232**

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT D-1
(Continued)

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

Grants (Continued)		
Federal		
Department of		
Agriculture	$	49,142
Health and Human Services		390,371
Homeland Security		19,506
Transportation		630,861
Total federal	**$**	**1,089,880**
Total state and federal grants	**$**	**1,552,112**
Total Intergovernmental Revenue	**$**	**3,811,829**

RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

EXHIBIT D-2

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers		Expenditures
U.S. Department of Agriculture				
Passed Through Minnesota Department of Human Services				
SNAP Cluster				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	15152MN10152514	**$**	**49,142**
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205	05894	$	30,861
Highway Planning and Construction	20.205	1000429		600,000
Total U.S. Department of Transportation and Total CFDA 20.205			**$**	**630,861**
U.S. Department of Health and Human Services				
Passed Through Minnesota Department of Human Services				
Promoting Safe and Stable Families	93.556	1401MNFPSS	$	1,320
TANF Cluster				
Temporary Assistance for Needy Families	93.558	1502MNTANF		25,159
Child Support Enforcement	93.563	1504MN4005		119,677
Refugee and Entrant Assistance - State-Administered Programs	93.566	1501MNRCMA		82
CCDF Cluster				
Child Care and Development Block Grant	93.575	G1501MNCCDF		1,512
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1401MNCWSS		870
Foster Care - Title IV-E	93.658	1501MNFOST		41,316
Social Services Block Grant	93.667	1501MNSOSR		36,243
Chafee Foster Care Independence Program	93.674	1401MN1420		1,349
Children's Health Insurance Program	93.767	1405MN5021		18
Medicaid Cluster				
Medical Assistance Program	93.778	1505MN5ADM		162,825
Total U.S. Department of Health and Human Services			**$**	**390,371**
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Public Safety				
Hazard Mitigation Grant	97.039	FEMA-4069-DR-MN	$	2,900
Emergency Management Performance Grants	97.042	A-EMPG-2014-REDLAKCO-00066		5,717
Emergency Management Performance Grants	97.042	A-EMPG-2015-REDLAKCO-00065		10,889
(Total Emergency Management Performance Grants 97.042 $16,606)				
Total U.S. Department of Homeland Security			**$**	**19,506**
Total Federal Awards			**$**	**1,089,880**

Red Lake County did not pass any federal awards through to subrecipients during the year ended December 31, 2015.

Totals by Cluster

Total expenditures for SNAP Cluster	$	49,142
Total expenditures for Highway Planning and Construction Cluster		630,861
Total expenditures for TANF Cluster		25,159
Total expenditures for CCDF Cluster		1,512
Total expenditures for Medicaid Cluster		162,825

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

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

1. Reporting Entity

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

2. Basis of Presentation

   The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Red Lake County under programs of the federal government for the year ended December 31, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Red Lake County, it is not intended to and does not present the financial position or changes in net position of Red Lake 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, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Red Lake County has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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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
Red Lake County
Red Lake Falls, 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 Red Lake County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 9, 2018.

Internal Control Over Financial Reporting

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

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 identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other items that we consider to be significant deficiencies.

An Equal Opportunity Employer

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 2015-001, 2015-002, 2015-003, and 2015-005 to be material weaknesses and items 1996-004, 2007-001, 2015-004, and 2015-006 through 2015-012 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Red Lake 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 Red Lake County administers no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Red Lake County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*, except as described in the Schedule of Findings and Questioned Costs as items 2015-015 to 2015-021. 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. We believe these recommendations to be of benefit to the County, and they are reported for that purpose.

Red Lake County's Response to Findings

Red Lake County's responses to the internal control, legal compliance, and management practices findings 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/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

August 9, 2018

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

Independent Auditor's Report

Board of County Commissioners
Red Lake County
Red Lake Falls, Minnesota

Report on Compliance for the Major Federal Program

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

Management's Responsibility
Management is responsible for compliance with 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 Red Lake County's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the 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 Red Lake County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on Highway Planning and Construction Cluster (CFDA No. 20.205)

As described in the accompanying Schedule of Findings and Questioned Costs, Red Lake County did not comply with requirements regarding CFDA No. 20.205 Highway Planning and Construction Cluster as described in finding number 2015-013 for Procurement, Suspension, and Debarment and finding number 2015-014 for Identification of Federal Awards. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified Opinion on Highway Planning and Construction Cluster (CFDA No. 20.205)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Red Lake County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Highway Planning and Construction Cluster for the year ended December 31, 2015.

Red Lake County's responses to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. Red Lake County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of Red Lake County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2015-013 and 2015-014 to be material weaknesses.

Red Lake County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. Red Lake County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Purpose of This Report

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

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

August 9, 2018

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RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

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

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: **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? **Yes**
- Significant deficiencies identified? **None reported**

Type of auditor's report issued on compliance for the major federal program: **Qualified**

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

The major federal program is:

Highway Planning and Construction Cluster	CFDA No. 20.205

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

Red Lake 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 1996-004

Segregation of Duties

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

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

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

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

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

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

View of Responsible Official: Concur

Finding Number 2007-001

Documenting and Monitoring Internal Controls

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

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

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

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

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

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

View of Responsible Official: Concur

ITEMS ARISING THIS YEAR

Finding Number 2015-001

Audit Adjustments

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

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

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

Effect: The following audit adjustments were reviewed and approved by management and are reflected in the financial statements:

Road and Bridge Special Revenue Fund

- Increased due from other governments and deferred inflows of resources - unavailable revenue for highway allotments of $217,707 that were receivable at year-end.

Ditch Special Revenue Fund

- Decreased the due to other funds liability and increased fund balance by $57,413 to eliminate an interfund payable that should not have been recorded.

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

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

View of Responsible Official: Concur

Finding Number 2015-002

Prior Period Adjustment

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards identify one indication of a material weakness in internal control to be the restatement of previously issued financial statements to reflect the correction of a material misstatement due to error.

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

Context: The need for prior period adjustments can raise doubts as to the reliability of the County's financial information being presented.

Effect: The January 1, 2015, net position of the governmental activities and the capital assets, net of related accumulated depreciation accounts, were restated (decreased) by $1,565,339.

Cause: In the prior year, uncompleted infrastructure was capitalized and related depreciation expense was recorded.

Recommendation: We recommend County staff improve their financial statement closing procedures to ensure they have accurate and complete information necessary to fairly present the County's financial statements in accordance with GAAP.

View of Responsible Official: Concur

Finding Number 2015-003

Management and Audit Responsibilities

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

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

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

Context: The extent of reliance on the external auditor was discovered during the re-audit of the County's financial statements for the year ended December 31, 2015.

Effect: While management can outsource the preparation of the financial statements, they cannot outsource their responsibility for them. The extent to which the County has relied on its external auditors for nonaudit services raises concerns about the responsibility for the financial statements and contributes to threats to the auditors' independence in relation to the audit. It is unclear whether those threats were, or could be, eliminated or reduced to an acceptable level by the prior auditors to be considered an objective evaluation of the financial statements.

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

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

View of Responsible Official: Concur

Finding Number 2015-004

<u>Journal Entry Controls</u>

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

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

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

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

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

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

View of Responsible Official: Acknowledged

Finding Number 2015-005

Capital Assets

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

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

- Nondepreciable capital assets - construction in progress was decreased by $1,232,905 for infrastructure projects completed during the year that were also recorded as depreciable capital assets.

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

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

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

- The County could not provide support for the capitalization thresholds or useful lives of capital assets used for financial reporting purposes and indicated it neither calculates nor tracks depreciation. Capital asset records, including depreciation, have historically been maintained by the private CPA firm that previously conducted the County's audit.

Context: To comply with GASB 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 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 34. Information needed for reporting includes capital assets by major asset category, capital outlay expenditures by expenditure function, and depreciation expense by expenditure function.

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

Cause: The County has relied on its external auditor to update and maintain capital asset records and, as a result, have indicated they did not believe internal controls were necessary.

Recommendation: We recommend the County Board establish a capital asset policy to define the County's accounting policies and procedures over capital assets to ensure capital asset records are accurately tracked by County staff. The policy should address procedures for County staff to identify capital asset additions and deletions. Also, we recommend a physical inventory of capital assets be performed at least once every five years. This physical inventory can be rotated so that a portion of the capital assets is inventoried each year. Capital asset records should not be maintained by the County's external auditors.

View of Responsible Official: Acknowledged

Finding Number 2015-006

<u>Inventory Records</u>

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

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

Context: The Highway Department uses its costing system to manage and track inventory. Typically, additions to the system are posted based on vendor invoices, and withdrawals are based on inventory usage reports provided by staff. The County recognized a significant addition to its gravel inventory by crushing gravel in 2015.

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

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

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

View of Responsible Official: Acknowledged

Finding Number 2015-007

Financial Statement Disclosures

Criteria: Reporting in accordance with GAAP requires certain elements to be included in the financial report.

Condition: The following presentations and disclosures in the originally prepared 2015 financial report were either not reported or were not reported correctly:

- A Federal Home Loan Bank security valued at $199,280 and a Federal Farm Credit Bank Bond valued at $646,165 were combined and disclosed as a single Federal Home Loan Bank security valued at $845,445. The notes to the financial statements improperly disclosed the Federal Home Loan Bank security valued at $845,445 as having a concentration of credit risk exceeding five percent of total investments.

- The investment disclosure stated the County did not have a policy addressing custodial risk and interest-rate risk; however, the County approved an investment policy on November 10, 2015, that covers investment risks. Additionally, the financial report disclosed investments of $2,160,850 may be subject to custodial credit risk. The County provided evidence that all investments were covered by SIPC and excess SIPC coverage, therefore, no investments were subject to custodial credit risk.

- The original calculation of the net other postemployment benefits (OPEB) obligation and required disclosures were determined using the alternative measurement method without assistance of an actuary. The calculation provided unexpected results, which were reported in the County's original 2015 financial statements. After seeking the assistance of an actuary, the actuarial accrued liability increased by $399,833.

- The defined contribution plan was incorrectly eliminated from the pension note and needed to be added back to the note.

- Intergovernmental revenue was not properly reported in the Schedule of Intergovernmental Revenue. State-shared revenues were understated by $427,841, and federal revenues were overstated by $53,079.

- The Forfeited Tax Fund is being reported as a separate special revenue fund when it does not meet the criteria in GASB 54 to be reported as such.

- Note II.A. - Change in Accounting Principles, discloses the governmental activities' January 1, 2015, net position as previously reported as $47,811,769, which is not the same as the December 31, 2014, reported net position of $47,764,526. The note does not provide an explanation for the difference.

Context: The financial report was originally prepared/audited by another auditor.

Effect: The indicated presentations and disclosures in the previously issued financial report for the year ended December 31, 2015, are not in accordance with GAAP.

Cause: The County did not have an adequate process in place to review the financial report before it was issued.

Recommendation: We recommend the County develop and document a process to review the financial report before the report is issued. Documentation of the review should be maintained on file.

View of Responsible Official: Concur

Finding Number 2015-008

Segregation of Duties - Vendor Setup

Criteria: Internal controls should be designed to provide for an adequate segregation of duties so that no one individual has the ability to both process disbursements and set up new vendors. If segregation of duties is limited due to staff size, procedures should be implemented to include someone independent of the vendor payment process to review, verify, and approve new vendors on a timely basis.

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

Context: The County has the ability to implement controls and/or limit access to the vendor setup function.

Effect: Inadequate segregation of duties increases the risk that errors or irregularities will not be detected in a timely manner.

Cause: The County indicated that this was due to staffing limitations.

Recommendation: We recommend the County re-evaluate whether segregation of duties between disbursements and vendor setup is possible and assign access rights as applicable. If this segregation is not feasible, we recommend that procedures be developed to have an employee independent of the vendor payment process review new vendors and changes to existing vendors in a timely manner.

View of Responsible Official: Concur

Finding Number 2015-009

Sheriff's Office Internal Control Deficiencies

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

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

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

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

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

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

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

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

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

View of Responsible Official: Concur

Finding Number 2015-010

<u>Budgeting Procedures</u>

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

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

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

Effect: General Fund budgeted revenues were $1,785,147 less in the financial system than the Board-approved budget, and budgeted expenditures in the financial system were $1,600 less than the Board-approved budget. The Road and Bridge and the Social Services Special Revenue Funds' budgets were not readily available within the general ledger for comparison or other monitoring activities that are expected to be performed by management and the Board of County Commissioners.

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

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

View of Responsible Official: Acknowledged

Finding Number 2015-011

<u>Fund Balance Reporting</u>

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

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

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

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

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

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

View of Responsible Official: Acknowledged

Finding Number 2015-012

iSeries System Settings

Criteria: County management is responsible for the County's internal controls over its information systems. This requires establishing security policies and performing assessments of existing controls to determine if the internal controls that have been established are still effective or if changes are needed to ensure County data is protected as prescribed by management.

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

Context: The County's general ledger (IFS) and payroll system information are stored and accessed on the iSeries server.

Effect: Increased risk of unauthorized access to financial and payroll information.

Cause: The County hires consultants for information technology services and had not considered the controls over the iSeries server.

Recommendation: We recommend Red Lake County management strengthen controls in place that limit access to the iSeries applications used by the County to ensure they are sufficient to protect the County's data.

View of Responsible Official: Acknowledged

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

Finding Number 2015-013

Uniform Guidance Written Procurement Policies and Procedures

Program: U.S. Department of Transportation's Highway Planning and Construction Cluster (CFDA No. 20.205), Award No. 1000429, 2015

Pass-Through Agency: Minnesota Department of Transportation

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.318 states that the non-federal entity must use its own documented procurement procedures which reflect applicable state, local, and tribal laws and regulations, provided that the procurements conform to applicable federal law and the standards identified in this regulation. The Uniform Guidance provides for a grace period for implementation of the new procurement standards provided that election is documented with the choice to use previous procurement standards.

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

Questioned Costs: Not applicable.

Context: This issue was discovered during the audit of the major federal program; however, it impacts federal programs County-wide. Written policies that reflect the specific components of federal regulations improve controls to help ensure compliance with federal award requirements. The County did adopt procurement policies in February 2018; however, additional information related to the Uniform Guidance will need to be added.

Effect: Noncompliance with federal program requirements. Additionally, the lack of written policies and procedures that reflect the Uniform Guidance procurement requirements could increase the risk of noncompliance with other federal program requirements.

Cause: The County was not aware of the Uniform Guidance requirements.

Recommendation: We recommend the County develop and adopt policies that include the specific components of the Uniform Guidance requirements in written procurement policies and procedures.

View of Responsible Official: Concur

Finding Number 2015-014

Identification of Federal Awards

Program: U.S. Department of Transportation's Highway Planning and Construction Cluster (CFDA No. 20.205), Award No. 1000429, 2015, and Award No. 05894, 2014

Pass-Through Agency: Minnesota Department of Transportation

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.510(b) states that the auditee must prepare a schedule of expenditures of federal awards (SEFA) for the period covered by the auditee's financial statements which must include the total federal awards expended as determined in accordance with § 200.502, *Basis for determining federal awards expended*.

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

Questioned Costs: Not applicable.

Context: The County provided federal expenditures for 2015 that reported no Highway Planning and Construction federal expenditures. After audit adjustments and reclassifications, the program expenditures were $630,861.

Effect: The inability to properly identify and track federal expenditures or to detect misstatements in the SEFA increases the likelihood that federal expenditures would not be fairly reported and that noncompliance with direct and material compliance requirements may occur.

Cause: The County did not properly identify federal expenditures of $630,861 related to Highway Planning and Construction.

Recommendation: We recommend the County review internal controls currently in place and design and implement procedures to improve controls over identifying the program expenditures of federal awards for SEFA reporting.

View of Responsible Official: Acknowledged

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

Finding Number 2015-015

Publishing Requirements

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

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

- Pursuant to Minn. Stat. § 375.12, within 30 days of each meeting, the County Board must have the official proceedings of its sessions or a summary published in a qualified newspaper of general circulation in the County. The affidavits of publication related to the publishing of a summary of the County Board minutes for 2015 were reviewed. The summaries were not published in the County's official newspaper within the 30-day requirement.

- Pursuant to Minn. Stat. § 375.169, annually, upon adoption of the County budget, the County must publish a summary budget statement in a form prescribed by the State Auditor in the County's official newspaper. The County did not publish the 2015 budget.

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

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

Cause: County staff stated this was an oversight.

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

View of Responsible Official: Acknowledged

Finding Number 2015-016

Acceptance of Donations

Criteria: Minnesota Statutes, section 465.03 states that, "[a]ny city, county, school district, or town may accept a grant or devise of real or personal property and maintain such property for the benefit of its citizens in accordance with the terms prescribed by the donor. . . . Every such acceptance shall be by resolution of the governing body, adopted by a two-thirds majority of its members, expressing such terms in full."

Condition: During 2015, the County received numerous donations totaling $1,860. The County Board minutes did not include approval or acceptance of these donations.

Context: Donations were received by the County for the Back to School Project, Red Lake County Craft Sale/Good Neighbor, and Red Lake County Holiday Program.

Effect: Noncompliance with Minn. Stat. § 465.03.

Cause: County staff stated this was an oversight.

Recommendation: We recommend the County establish procedures to ensure that only the County Board accepts donations and the terms prescribed by the donor.

View of Responsible Official: Concur

Finding Number 2015-017

Out-of-State Travel Policy

Criteria: Counties are required by Minn. Stat. § 471.661 to, ". . . have on record a policy that controls travel outside of the state of Minnesota for the applicable elected officials of the relevant unit of government." The policy must be approved by a recorded vote and specify when travel outside of the state is appropriate, applicable expense limits, and procedures for approved travel.

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

Context: A formal out-of-state travel policy should clarify the County Board's position and could include the following additional items:

- which expenses are reimbursable;
- which expenses are prohibited;
- who is authorized to approve out-of-state travel expenses; and
- what type of documentation is required to support expenses.

Effect: Noncompliance with Minn. Stat. § 471.661.

Cause: County staff stated this was an oversight.

Recommendation: We recommend the County Board establish a formal out-of-state travel policy in accordance with Minn. Stat. § 471.661.

View of Responsible Official: Concur

Finding Number 2015-018

Credit Card Use

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

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

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

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

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

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

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

View of Responsible Official: Concur

Finding Number 2015-019

<u>Electronic Funds Transfer (EFT) Policies and Procedures</u>

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

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

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

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

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

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

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

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

View of Responsible Official: Concur

Finding Number 2015-020

Depository Pledge Agreement

Criteria: Minnesota Statutes, section 118A.03, subdivision 4, states that, "[a]ny collateral pledged shall be accompanied by a written assignment to the government entity from the financial institution. The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged." Finally, to be enforceable under federal law (12 U.S.C. § 1823(e)), this written assignment must be approved by the depository's board of directors or loan committee and must be an official record of the depository.

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

Context: To secure deposits in excess of the available federal deposit insurance, the depository has pledged securities from their investment portfolio as collateral. Absent from the pledging documents, however, is a written assignment of the collateral to the County.

Effect: Without an approved written assignment of the pledged collateral, the County does not have a perfected security interest in the pledged collateral. Deposits held in excess of federal deposit insurance are at risk of loss should a depository fail.

Cause: The County Treasurer asserted a copy of the agreement was not maintained and the depository bank did not have a copy readily available to provide to Red Lake County.

Recommendation: We recommend the County require that its depositories provide written assignments for all collateral pledged. The assignments should include the statutory language required by Minn. Stat. § 118A.03, subd. 4, and should be approved by each bank's board of directors or loan committee, with the County receiving documentation of that approval.

View of Responsible Official: Concur

Finding Number 2015-021

<u>Open-Ended Mutual Fund</u>

Criteria: The County's investment policy states the County will invest in instruments in accordance with Minn. Stat. §§ 118A.01 to 118A.08.

Minnesota Statutes, section 118A.05, subdivision 4, limits the County's investment in mutual funds to those that purchase only short-term obligations, either money market obligations or obligations that mature in less than 13 months.

Condition: At December 31, 2015, the County held investments of $2,133,467 in mortgage mutual funds called VOYA GNMA Income Fund Class A LEXNX (VOYA). VOYA does not qualify as a permissible public investment under Minn. Stat. § 118A.05, subd. 4.

Context: The VOYA GNMA mutual fund investment was purchased prior to January 1, 1997; however, public investment law changed in 1996, and VOYA was not a permitted investment after January 1, 1997.

Effect: The County is not in compliance with Minn. Stat. § 118A.05.

Cause: The County asserts that VOYA was a permissible investment when it was purchased prior to 1996. However, our review of VOYA's current prospectus indicates it would not qualify as a pre-1996 public investment. Further, when the public investment law was signed by the Governor on April 2, 1996, its effective date was postponed until January 1, 1997, for the sole purpose of allowing public investors to bring their portfolios into compliance with the new law.

Recommendation: We recommend the County bring its investment portfolio into compliance with Minn. Stat. § 118A.05, subd. 4, and the County's investment policy.

View of Responsible Official: Acknowledged

B. MANAGEMENT PRACTICES

ITEMS ARISING THIS YEAR

Finding Number 2015-022

Disaster Recovery Plan

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

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

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

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

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

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

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

View of Responsible Official: Concur

Finding Number 2015-023

<u>Social Welfare Fund Activity</u>

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

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

Context: As of December 31, 2015, the social welfare checking account held $6,308 in funds received from charity programs that did not belong to social welfare clients.

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

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

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

View of Responsible Official: Acknowledged

Finding Number 2015-024

Employee Recognition Program Awards

Criteria: Internal Revenue Service (IRS) Publication 525 states that, "If you receive tangible personal property (other than cash, a gift certificate, or an equivalent item) as an award for length of service or safety achievement, you can exclude its value from your income."

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

Context: In 2015, there were nine separate instances of employees receiving gift certificates for length of service awards that were not included in the respective employees' income as required by IRS Publication 525.

Effect: Noncompliance with the provisions detailed in IRS Publication 525.

Cause: The County was unaware that gift certificates provided for length of service awards should be considered income to the employee per IRS Publication 525.

Recommendation: We recommend the County include all gift certificates provided to employees for length of service awards in the taxable income of the recipient. If the County does not wish for the award to result in additional taxable income for the employee, the County should refrain from using gift certificates in the employee recognition program.

View of Responsible Official: Concur

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Red Lake County Auditors Office

Bob Schmitz,
County Auditor

REPRESENTATION OF RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2015

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

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

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

Anticipated Completion Date:
Monitor on an on-going basis.

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

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

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

-An Equal Opportunity Employer-

Anticipated Completion Date:
Update on continuous basis.

Finding Number: 2015-001
Finding Title: Audit Adjustments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Finding Number: 2015-005
Finding Title: Capital Assets

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

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

Anticipated Completion Date:
December 31, 2019

Finding Number: 2015-006
Finding Title: Inventory Records

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

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

Anticipated Completion Date:
December 31, 2019

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

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

Corrective Action Planned:
Due to limited staff and the quantity of financial information being maintained by the county, we will continue to rely upon the expertise of our independent auditors to assist us in assuring the accuracy of our financial reports. The county will establish a process to review its financial statements more closely before being approved for release.

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

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

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

Corrective Action Planned:
Social Services Fiscal Supervisor is responsible for setting up Welfare Fund vendors, and the County Auditor is responsible for setting up vendors for Revenue, Road & Bridge, and other funds. The County treasurer will verify all new vendors and will document the procedure utilized for verification.

Anticipated Completion Date:
Completed September 2018

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

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

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

Anticipated Completion Date:
January 31, 2019

Finding Number: 2015-010
Finding Title: Budgeting Procedures

Name of Contact Person Responsible for Corrective Action:
Bob Schmitz, County Auditor
Jerilyn Swenson, Interim County Engineer
Penny Grove, Social Services Fiscal Supervisor
Kristi Nelson, Social Services Director

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

Anticipated Completion Date:
Immediately.

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

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

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

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

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

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

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

Anticipated Completion Date:
Stronger value settings completed in April and May 2018. Security cabinet completed October 2018.

Finding Number: 2015-013
Finding Title: Uniform Guidance Written Procurement Policies and Procedures
Program Name: Highway Planning and Construction Cluster (CFDA No. 20.205)

Name of Contact Person Responsible for Corrective Action:
Bob Schmitz, County Auditor
Jerilyn Swenson, Interim County Engineer
Penny Grove, Social services Fiscal Supervisor
Kristi Nelson, Social Services Director.

Corrective Action Planned:
The county will review the current Procurement Policy and include the additional information related to Uniform Guidance requirements.

Anticipated Completion Date:
February 28, 2019

Finding Number: 2015-014
Finding Title: Identification of Federal Awards
Program Name: Highway Planning and Construction Cluster (CFDA No. 20.205)

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

Corrective Action Planned:
Procedures to properly identify and track federal expenditures will be implemented.

Anticipated Completion Date:
June 30, 2019

Finding Number: 2015-015
Finding Title: Publishing Requirements

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

Corrective Action Planned:
Publish summary of budget and minutes by MN Statute requirements.

Anticipated Completion Date:
Immediately.

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

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

Corrective Action Planned:
Policy regarding accepting donations will be reviewed/updated/developed as needed to include that a form will be used for requesting County Board approval. A form to list donations and any conditions will be developed for county departments to list donations that will be approved by the County Board in accordance with the donation policy.

Anticipated Completion Date:
January 31, 2019

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

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

Corrective Action Planned:
County will update policy to add monetary spending limits as required by statute.

Anticipated Completion Date:
December 31, 2018

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

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

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

Anticipated Completion Date:
January 31, 2019

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

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

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

Anticipated Completion Date:
December 31, 2019

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

Name of Contact Person Responsible for Corrective Action:
Nick Knott, County Treasurer

Corrective Action Planned:
Red Lake County will get a Depository Pledge Agreement in place with our financial institution.

Anticipated Completion Date:
The agreement will be completed upon the financial institutions approval.

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

Name of Contact Person Responsible for Corrective Action:
Nick Knott, County Treasurer

Corrective Action Planned:
Red Lake County is currently in discussion to determine an appropriate resolution regarding the Open-Ended Mutual Fund. The county will continue to look into investment options.

Anticipated Completion Date:
Appropriate action will be taken when a resolution is agreed upon.

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

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

Corrective Action Planned:
The county has had an informal disaster recovery procedure in place for several years with our IT provider. A more comprehensive plan will be developed by a small committee including one representative from Social Services, the County Auditor, and any other key personnel as identified by the County Auditor. Planning will begin immediately with full plan to be presented to the County Board for approval by the anticipated completion date.

Anticipated Completion Date:
June 30, 2019

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

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

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

Anticipated Completion Date:
January 31, 2019

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

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

Corrective Action Planned:
The current county policy will be clarified noting that all gift certificates issued will be taxable to all recipient employees.

Anticipated Completion Date:
December 31, 2018.

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REPRESENTATION OF RED LAKE COUNTY
RED LAKE FALLS, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2015

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

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

Summary of Corrective Action Previously Reported: Management is aware of this issue and continues to monitor the situation.

Status: Not Corrected. The County acknowledges that segregation of duties is difficult with minimal staff. Funding is not available to hire additional employees. The County will continue to monitor this issue.

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

Finding Number: 2007-001
Finding Title: Internal Controls

Summary of Condition: Management must implement internal controls over financial reporting and safeguarding assets, and continue to be aware of their responsibilities and to maintain suitable skills, knowledge, and expertise to sufficiently review, understand, and approve the County's financial statements, including notes.

Summary of Corrective Action Previously Reported: The County will monitor the effectiveness of internal controls and will implement the changes as needed.

Status: Partially Corrected. The County is in the process of developing additional written policies and procedures.

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