

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

Carlton County Carlton, Minnesota

Year Ended December 31, 2020

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension – monitors investment, financial, and actuarial reporting for Minnesota’s local public pension funds; and

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

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

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Carlton County Carlton, Minnesota

Year Ended December 31, 2020



Office of the State Auditor

**Audit Practice Division
Office of the State Auditor
State of Minnesota**

**CARLTON COUNTY
CARLTON, MINNESOTA**

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**CARLTON COUNTY
CARLTON, MINNESOTA**

ORGANIZATION
AS OF DECEMBER 31, 2020

			<u>Term Expires</u>
Elected			
Commissioners			
Board Member	Dick Brenner	District 1	January 2021
Board Member	Marv Bodie	District 2	January 2023
Board Member	Thomas Proulx	District 3	January 2021
Board Chair	Mark Thell	District 4	January 2023
Board Member	Gary Peterson	District 5	January 2021
Attorney	Lauri Ketola		January 2023
Auditor-Treasurer	Kathryn Kortuem*		January 2023
Sheriff	Kelly Lake		January 2023
Appointed			
Assessor	Kyle Holmes		January 2021
Recorder	Kristine Basilici		January 2023
Registrar of Titles	Kristine Basilici		January 2023
Highway Engineer	JinYeene Neumann		May 2022
Veterans Service Officer	Duane Brownie		January 2021
Surveyor	Ben Anderson		December 2020
County Coordinator	Dennis Genereau		Indefinite

*Acting Auditor-Treasurer



INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Carlton County
Carlton, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carlton County, Minnesota, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Adverse Opinion on Governmental Activities

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

Adverse Opinion

In our opinion, because of the effects of the matters described in the “Basis for Adverse Opinion on Governmental Activities” section above, the financial statements do not present fairly, in all material respects, the financial position of the governmental activities of Carlton County as of December 31, 2020, or the changes in financial position thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of Carlton County, Minnesota, as of December 31, 2020, 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 2020, the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, which represents a change in accounting principles. 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Carlton County’s basic financial statements. The Other Information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2021, on our consideration of Carlton County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Carlton County’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Carlton County’s internal control over financial reporting and compliance.

/s/Julie Blaha

/s/Dianne Syverson

JULIE BLAHA
STATE AUDITOR

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

September 21, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CARLTON COUNTY
CARLTON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020
(Unaudited)**

Carlton County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2020. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is (\$10,690,705) of which \$9,215,845 is restricted for specific purposes.
- Carlton County's governmental activities' net position decreased by \$6,331,277 for the year ended December 31, 2020.
- The net cost of governmental activities was \$40,987,649 for the current fiscal year. The net cost was funded by general revenues totaling \$34,656,372.
- Governmental funds' fund balances increased by \$3,857,068.
- Carlton County has not established capital asset records or recorded the related depreciation as required by Governmental Accounting Standards Board (GASB) Statement 34.
- Carlton County received federal Coronavirus Relief Funds in response to the COVID-19 pandemic.
- Carlton County issued \$9,500,000 of General Obligation Capital Improvement Plan Bonds, Series 2020.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

In the Statement of Net Position and the Statement of Activities, all activities of the County are governmental, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.

Fund Financial Statements

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

All of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general

government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation following each governmental fund financial statement.

Reporting the County's Fiduciary Responsibilities

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

THE COUNTY AS A WHOLE

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

**Table 1
Net Position
(in Thousands)**

	<u>2020</u>	<u>2019</u>
Assets	\$ 50,747	\$ 50,798
Deferred Outflows of Resources		
Deferred pension outflows	\$ 4,691	\$ 4,412
Liabilities		
Long-term liabilities outstanding	\$ 56,490	\$ 43,265
Other liabilities	<u>6,773</u>	<u>9,893</u>
Total Liabilities	<u>\$ 63,263</u>	<u>\$ 53,158</u>
Deferred Inflows of Resources		
Deferred pension inflows and prepaid property taxes	<u>\$ 2,866</u>	<u>\$ 6,411</u>
Net Position		
Restricted	\$ 9,216	\$ 9,794
Unrestricted	<u>(19,907)</u>	<u>(14,153)</u>
Total Net Position	<u><u>\$ (10,691)</u></u>	<u><u>\$ (4,359)</u></u>

Table 2
Changes in Net Position
(in Thousands)

	2020	2019
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 7,697	\$ 8,575
Operating grants and contributions	24,621	20,319
Capital grants and contributions	3,377	143
General revenues		
Property taxes	27,965	26,888
Other taxes	3,071	2,472
Grants and contributions	3,183	2,972
Other general revenues	437	1,203
Total Revenues	\$ 70,351	\$ 62,572
Expenses		
Program expenses		
General government	\$ 10,783	\$ 14,032
Public safety	10,206	10,018
Culture and recreation	475	528
Highways and streets	27,234	16,569
Human services	18,575	18,248
Health	2,504	1,923
Sanitation	1,762	1,661
Conservation of natural resources	1,427	1,561
Economic development	3,298	2,526
Interest	419	154
Total Expenses	\$ 76,683	\$ 67,220
Change in Net Position	\$ (6,332)	\$ (4,648)
Net Position, January 1	(4,359)	289
Net Position, December 31	\$ (10,691)	\$ (4,359)

Governmental Activities

The cost of all governmental activities this year was \$76,683,231. However, as shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through County taxes was only \$27,965,188, because some of the cost was paid by those who directly benefited from the programs (\$7,697,386) or by other governments and organizations that subsidized certain programs with grants and contributions (\$27,998,196).

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

**Table 3
Governmental Activities
(in Thousands)**

	Total Cost of Services		Net Cost of Services	
	2020	2019	2020	2019
General government	\$ 10,783	\$ 14,032	\$ 4,217	\$ 11,798
Public safety	10,206	10,018	9,255	8,441
Highways and streets	27,234	16,569	16,157	8,713
Human services	18,575	18,248	8,206	7,552
Economic development	3,298	2,526	1,175	523
All others	6,587	5,827	1,978	1,156
Totals	\$ 76,683	\$ 67,220	\$ 40,988	\$ 38,183

THE COUNTY’S FUNDS

As the County completed the year, its governmental funds reported a combined fund balance of \$42,546,448, which is greater than last year’s total of \$38,689,380. Included in this year’s total fund balance is a surplus of \$22,442,781 in the County’s General Fund. The overall increase in the governmental funds was primarily due to an increase in unrestricted funds in the General Fund.

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) for the County’s General Fund were less than the final budget by \$702,549. The largest variance was in the Airport Commission budget.

Resources available for appropriation (revenues) were greater than the final budget for the County’s General Fund by \$3,672,216. Collections were greater than expected in charges for services and intergovernmental revenue, and less than expected for real estate taxes, investment earnings, and miscellaneous revenues. Coronavirus Relief Funds were included in intergovernmental revenue and not budgeted for.

Fund balance was expected to decrease by \$574,579 for the year. Actual fund balance increased by \$3,417,202, due primarily to actual revenues being greater than the budget, reduced spending during the pandemic, and the ability to capture some salary costs for public safety under the CARES Act.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2020, the County had not completed an inventory and historical cost analysis of its capital assets, including infrastructure. It is anticipated that the analysis will be performed over the next year, and a record-keeping system will be established.

Debt

At year-end, the County had \$17,625,000 outstanding in general obligation bonds backed by the County, versus \$8,965,000 last year.

The County issued \$9,500,000 of General Obligation Capital Improvement Plan Bonds, Series 2020, in 2020. The purpose of the bonds is to provide funds for capital improvements related to highways and streets. Principal and interest payments on all bonds and notes will not exceed the amount allowed by Minn. Stat. § 373.40.

Other obligations include accrued vacation pay and sick leave payable. More detailed information about the County's long-term liabilities is presented in Note 3.C to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND LEVY

The County's elected and appointed officials considered many factors when setting the fiscal year 2021 budget and tax levy:

- anticipated general COLA increase of 1.75 percent,
- anticipated health insurance increase of 8.89 percent,
- increase of 28.55 percent in MCIT Property/Casualty and Worker's Compensation Insurance,
- decrease of \$400,000 in interest revenue due to historically low interest rates,
- decrease of \$293,265 in levy debt repayments, and
- increase of 2 percent for property tax levies in 2021.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2020**

Assets

Cash and pooled investments	\$ 40,847,186
Receivables	7,131,619
Inventories	977,496
Prepaid items	1,790,873
	1,790,873
Total Assets	\$ 50,747,174

Deferred Outflows of Resources

Deferred other postemployment benefits outflows	\$ 1,606,822
Deferred pension outflows	3,084,493
	3,084,493
Total Deferred Outflows of Resources	\$ 4,691,315

Liabilities

Accounts payable and other current liabilities	\$ 6,370,437
Accrued interest payable	159,396
Unearned revenue	243,351
Long-term liabilities	
Due within one year	1,255,000
Due in more than one year	21,292,941
Other postemployment benefits liability	15,993,576
Net pension liability	17,948,825
	17,948,825
Total Liabilities	\$ 63,263,526

Deferred Inflows of Resources

Deferred pension inflows	\$ 2,865,668
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Net Position

Restricted for	
General government	\$ 617,848
Public safety	156,158
Highways and streets	1,994,949
Conservation of natural resources	473,107
Sanitation	97,841
Economic development	3,737,635
Debt service	2,138,307
Unrestricted	(19,906,550)
	(19,906,550)
Total Net Position	\$ (10,690,705)

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

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**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Functions/Programs				
Governmental activities				
General government	\$ 10,783,391	\$ 1,679,546	\$ 4,886,524	\$ -
Public safety	10,205,789	386,528	564,756	-
Highways and streets	27,233,767	778,287	8,449,962	1,848,332
Sanitation	1,760,744	1,305,625	103,070	-
Human services	18,575,671	1,463,737	8,906,272	-
Health	2,504,190	893,015	1,109,747	-
Culture and recreation	475,010	-	175,617	-
Conservation of natural resources	1,427,191	880,862	140,477	-
Economic development	3,297,910	309,786	284,771	1,528,668
Interest	419,568	-	-	-
	\$ 76,683,231	\$ 7,697,386	\$ 24,621,196	\$ 3,377,000
Total Governmental Activities	\$ 76,683,231	\$ 7,697,386	\$ 24,621,196	\$ 3,377,000
 General Revenues				
Property taxes				\$ 27,965,188
Mortgage registry and deed tax				39,020
Transportation sales tax				2,557,119
Payments in lieu of tax				475,191
Grants and contributions not restricted to specific programs				3,183,343
Unrestricted investment earnings				295,096
Miscellaneous				141,415
				\$ 34,656,372
Total general revenues				\$ 34,656,372
Change in net position				\$ (6,331,277)
Net Position – Beginning				(4,359,428)
Net Position – Ending				\$ (10,690,705)

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS

**CARLTON COUNTY
CARLTON, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2020**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 19,610,003	\$ 2,205,874
Petty cash and change funds	2,100	-
Taxes receivable		
Delinquent	353,815	64,818
Special assessments receivable		
Delinquent	28,679	-
Accounts receivable	64,607	-
Accrued interest receivable	30,776	-
Due from other funds	276,012	909
Due from other governments	256,677	1,917,174
Inventories	-	977,496
Prepaid items	1,790,873	-
Loans receivable	1,700,252	-
	\$ 24,113,794	\$ 5,166,271
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 759,447	\$ 161,100
Salaries payable	455,293	136,352
Contracts payable	-	866,983
Due to other funds	636	-
Due to other governments	72,292	345,037
Unearned revenue	51,033	118,614
	\$ 1,338,701	\$ 1,628,086
Deferred Inflows of Resources		
Unavailable revenue		
Taxes	\$ 332,312	\$ 58,235
Grants	-	527,889
Long-term receivables	-	-
	\$ 332,312	\$ 586,124

EXHIBIT 3

Human Services	Forfeited Tax	Capital Projects	Debt Service	Total
\$ 14,710,935	\$ 357,899	\$ 1,817,862	\$ 2,136,113	\$ 40,838,686
6,400	-	-	-	8,500
175,043	-	-	24,137	617,813
-	-	-	-	28,679
279,294	743,909	-	-	1,087,810
-	-	-	-	30,776
-	-	-	-	276,921
1,492,438	-	-	-	3,666,289
-	-	-	-	977,496
-	-	-	-	1,790,873
-	-	-	-	1,700,252
\$ 16,664,110	\$ 1,101,808	\$ 1,817,862	\$ 2,160,250	\$ 51,024,095
\$ 410,767	\$ 371	\$ 2,384,246	\$ -	\$ 3,715,931
406,702	6,471	-	-	1,004,818
-	-	-	-	866,983
-	276,285	-	-	276,921
290,602	74,774	-	-	782,705
73,704	-	-	-	243,351
\$ 1,181,775	\$ 357,901	\$ 2,384,246	\$ -	\$ 6,890,709
\$ 158,951	\$ -	\$ -	\$ 21,943	\$ 571,441
20,344	-	-	-	548,233
-	467,264	-	-	467,264
\$ 179,295	\$ 467,264	\$ -	\$ 21,943	\$ 1,586,938

**CARLTON COUNTY
CARLTON, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2020**

	General	Road and Bridge
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
(Continued)		
Fund Balances		
Nonspendable		
Inventories	\$ -	\$ 977,496
Prepaid items	1,790,873	-
Long-term loans	1,700,252	-
Missing heirs	35,996	-
Restricted		
Debt service	-	-
Law library	139,831	-
Recorder's technology equipment	202,260	-
Recorder's compliance	209,508	-
Prosecutorial purposes	30,253	-
Administering the carrying of weapons	134,014	-
Law enforcement	22,144	-
Timber development	473,107	-
Economic development	2,135,224	-
Highways and streets	-	471,293
Transportation sales tax	-	1,523,656
Assigned		
Ambulance replacement	82,500	-
Human services	-	-
Health	-	-
Forfeited tax	-	-
Unassigned	15,486,819	(20,384)
Total Fund Balances	\$ 22,442,781	\$ 2,952,061
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 24,113,794	\$ 5,166,271

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Forfeited Tax</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 977,496
-	-	-	-	1,790,873
-	-	-	-	1,700,252
-	-	-	-	35,996
-	-	-	2,138,307	2,138,307
-	-	-	-	139,831
-	-	-	-	202,260
-	-	-	-	209,508
-	-	-	-	30,253
-	-	-	-	134,014
-	-	-	-	22,144
-	-	-	-	473,107
-	-	-	-	2,135,224
-	-	-	-	471,293
-	-	-	-	1,523,656
-	-	-	-	82,500
11,982,876	-	-	-	11,982,876
3,320,164	-	-	-	3,320,164
-	276,643	-	-	276,643
-	-	(566,384)	-	14,900,051
<u>\$ 15,303,040</u>	<u>\$ 276,643</u>	<u>\$ (566,384)</u>	<u>\$ 2,138,307</u>	<u>\$ 42,546,448</u>
<u>\$ 16,664,110</u>	<u>\$ 1,101,808</u>	<u>\$ 1,817,862</u>	<u>\$ 2,160,250</u>	<u>\$ 51,024,095</u>

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION—GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2020**

Fund balance – total governmental funds (Exhibit 3) \$ 42,546,448

Amounts reported for governmental activities in the statement of net position are different because:

Deferred outflows of resources are not available resources and, therefore, are not reported in the governmental funds.

Deferred other postemployment benefits outflows	\$ 1,606,822	
Deferred pension outflows	3,084,493	4,691,315

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.		1,586,938
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.

General obligation bonds	\$ (17,625,000)	
Bond premium	(693,452)	
Accrued interest payable	(159,396)	
Compensated absences	(4,229,489)	
Net other postemployment benefits liability	(15,993,576)	
Net pension liability	(17,948,825)	(56,649,738)

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.		(2,865,668)

Net Position of Governmental Activities (Exhibit 1) \$ (10,690,705)

**CARLTON COUNTY
CARLTON, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	General	Road and Bridge
Revenues		
Taxes	\$ 16,373,863	\$ 5,505,047
Special assessments	581,444	-
Licenses and permits	98,315	-
Intergovernmental	10,299,042	10,761,719
Charges for services	2,556,680	553,362
Fines and forfeits	47,302	-
Gifts and contributions	190,988	-
Investment earnings	292,066	3,030
Miscellaneous	780,419	224,925
	\$ 31,220,119	\$ 17,048,083
Expenditures		
Current		
General government	\$ 10,675,849	\$ -
Public safety	10,475,195	-
Highways and streets	-	17,144,023
Sanitation	1,759,315	-
Human services	-	-
Health	-	-
Culture and recreation	475,010	-
Conservation of natural resources	883,654	-
Economic development	3,297,910	-
Debt service		
Principal	-	-
Interest	-	-
Bond issuance costs	-	-
Administrative charges	-	-
	\$ 27,566,933	\$ 17,144,023
Total Expenditures	\$ 27,566,933	\$ 17,144,023
Excess of Revenues Over (Under) Expenditures	\$ 3,653,186	\$ (95,940)
Other Financing Sources (Uses)		
Transfers in	\$ 186,012	\$ 7,442
Transfers out	(421,996)	-
Proceeds from bonds issued	-	-
Premium on bonds issued	-	-
	\$ (235,984)	\$ 7,442
Total Other Financing Sources (Uses)	\$ (235,984)	\$ 7,442
Net Change in Fund Balance	\$ 3,417,202	\$ (88,498)
Fund Balance – January 1	19,025,579	3,022,873
Increase (decrease) in inventories	-	17,686
	\$ 22,442,781	\$ 2,952,061
Fund Balance – December 31	\$ 22,442,781	\$ 2,952,061

EXHIBIT 5

Human Services	Forfeited Tax	Capital Projects	Debt Service	Total
\$ 7,759,442	\$ -	\$ -	\$ 1,048,232	\$ 30,686,584
-	-	-	-	581,444
-	-	-	-	98,315
10,606,986	21,626	-	21,085	31,710,458
2,100,673	-	-	-	5,210,715
-	-	-	-	47,302
84,010	-	-	-	274,998
-	-	-	-	295,096
256,079	884,691	-	-	2,146,114
\$ 20,807,190	\$ 906,317	\$ -	\$ 1,069,317	\$ 71,051,026
\$ -	\$ -	\$ -	\$ -	\$ 10,675,849
-	-	-	-	10,475,195
-	-	10,106,960	-	27,250,983
-	-	-	-	1,759,315
18,145,652	-	-	-	18,145,652
2,491,839	-	-	-	2,491,839
-	-	-	-	475,010
-	543,827	-	-	1,427,481
-	-	-	-	3,297,910
-	-	-	840,000	840,000
-	-	-	240,476	240,476
-	-	127,836	-	127,836
-	-	-	3,800	3,800
\$ 20,637,491	\$ 543,827	\$ 10,234,796	\$ 1,084,276	\$ 77,211,346
\$ 169,699	\$ 362,490	\$ (10,234,796)	\$ (14,959)	\$ (6,160,320)
\$ 414,554	\$ -	\$ -	\$ -	\$ 608,008
-	(186,012)	-	-	(608,008)
-	-	9,500,000	-	9,500,000
-	-	499,702	-	499,702
\$ 414,554	\$ (186,012)	\$ 9,999,702	\$ -	\$ 9,999,702
\$ 584,253	\$ 176,478	\$ (235,094)	\$ (14,959)	\$ 3,839,382
14,718,787	100,165	(331,290)	2,153,266	38,689,380
-	-	-	-	17,686
\$ 15,303,040	\$ 276,643	\$ (566,384)	\$ 2,138,307	\$ 42,546,448

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES—GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020**

Net change in fund balance – total governmental funds (Exhibit 5) \$ 3,839,382

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

In the funds, under the modified accrual basis, revenues not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment between the fund statements and the statement of activities is the increase or decrease in revenues deferred as unavailable.

Unavailable revenue – December 31	\$ 1,586,938	
Unavailable revenue – January 1	<u>(2,287,316)</u>	(700,378)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Refunding bonds issued	\$ (9,500,000)	
Bond premium	(499,702)	
Principal repayments		
General obligation bonds	<u>840,000</u>	(9,159,702)

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 the governmental funds.

Change in accrued interest payable	\$ (87,444)	
Change in compensated absences	(497,732)	
Amortization of bond premium	39,988	
Change in inventories	17,686	
Change in other postemployment benefits liability	(1,567,617)	
Change in other postemployment benefits outflows	813,371	
Change in net pension liability	(2,040,552)	
Change in deferred pension outflows	(534,204)	
Change in deferred pension inflows	<u>3,545,925</u>	<u>(310,579)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ (6,331,277)

FIDUCIARY FUNDS

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2020**

	Social Welfare Private-Purpose Trust Fund	Custodial Funds
<u>Assets</u>		
Cash and pooled investments	\$ 112,594	\$ 2,035,399
Taxes receivable for state	-	23,757
Taxes receivable for other governments	-	581,451
Total Assets	\$ 112,594	\$ 2,640,607
<u>Liabilities</u>		
Due to other governments	\$ -	\$ 1,023,743
<u>Net Position</u>		
Restricted for Individuals, organizations, and other governments	\$ 112,594	\$ 1,616,864

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Social Welfare Private-Purpose Trust Fund	Custodial Funds
<u>Additions</u>		
Contributions		
Individuals	\$ 728,241	\$ -
Other governments	-	294,135
Investment earnings		
Interest, dividends, and other	-	97
Monetary forfeitures	-	4,390
Property tax collections for		
State	-	3,646,001
Other governments	-	27,955,726
Fees collected for state	-	5,015,973
	\$ 728,241	\$ 36,916,322
<u>Deductions</u>		
Payments of property taxes to		
Other governments	\$ -	\$ 28,078,952
State	-	3,670,697
Beneficiary payments to individuals	720,624	-
Payments to state	-	5,017,583
Forfeitures paid to County	-	13,868
Payments to other individuals/entities	-	652,112
	\$ 720,624	\$ 37,433,212
Change in Net Position	\$ 7,617	\$ (516,890)
Net Position – January 1, as restated (Note 1.E)	104,977	2,133,754
Net Position – December 31	\$ 112,594	\$ 1,616,864

**CARLTON COUNTY
CARLTON, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020

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, 2020. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

Carlton County has not included capital assets or infrastructure, such as roads and bridges, in the government-wide financial statements as required by GASB Statement 34. This departure from GAAP is discussed in Notes 1.D.4 to the financial statements.

A. Financial Reporting Entity

Carlton County was established May 23, 1857, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Carlton County (primary government) and any component units for which the County is financially accountable. The County has no component units. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Auditor/Treasurer, who is appointed, serves as the clerk of the Board but has no vote.

Joint Ventures

The County participates in several joint ventures described in Note 5.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 Carlton County.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

In the government-wide statement of net position, the governmental activities are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations, except that Carlton County does not report capital assets, as discussed in Note 1.D.4.

The County's net position is reported in two parts: (1) restricted net position and (2) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues. The County has not recorded depreciation expense or eliminated the related capital expenditures in the statement of activities as required by accounting principles generally accepted in the United States of America, as discussed in Note 1.D.4.

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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

- The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.
- The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.
- The Human Services Special Revenue Fund is used to account for economic assistance and community social services programs.
- The Forfeited Tax Special Revenue Fund is used to account for proceeds from the sale or rental of lands forfeited to the State of Minnesota pursuant to Minn. Stat. ch. 282. The distribution of the net proceeds, after deducting the expenses of the County for managing the tax-forfeited lands, is governed by Minn. Stat. § 282.08. Title to the tax-forfeited lands remains with the state until sold by the County.
- The Debt Service Fund is used to account for the accumulation of resources for and the payment of principal, interest, and related costs of general long-term debt.
- The Capital Projects Fund is used to account for the expenditure of bond proceeds which were issued to finance the construction of an expansion of the maintenance facility building in Barnum.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fiduciary fund types:

- The Social Welfare Private-Purpose Trust Fund is used to account for resources legally held in a trust for the benefit of individuals.
- Custodial funds are custodial in nature. These funds account for activity that the County holds for others in an agent capacity.

C. Measurement Focus and Basis of Accounting

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

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

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at fair value at December 31, 2020. A market approach is used to value all investments other than external investment pools, which are measured at the net asset value. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2020 were \$292,066.

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

2. Receivables and Payables

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

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables (Continued)

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

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

3. Inventories and Prepaid Items

Road and Bridge Special Revenue Fund inventory consists of expendable supplies held for consumption and is valued at cost using the weighted-average cost method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

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

4. Capital Assets

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Capital Assets (Continued)

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

5. Unearned Revenue

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

6. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are liquidated by the General Fund and the Road and Bridge, Human Services, and Forfeited Tax Special Revenue Funds.

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County reports deferred outflows of resources under the full accrual basis of accounting associated with pension plans and other postemployment benefits (OPEB) and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources until that time. The County has two types of deferred inflows. The governmental funds report unavailable revenue from delinquent taxes receivable, grant receivables, and long-term receivables. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. Unavailable revenue is deferred and recognized as an inflow of resources in the period that the amounts become available. The County also reports deferred inflows of resources associated with pension benefits. These inflows arise only under the full accrual basis of accounting and, accordingly, are reported only in the statement of net position.

8. Pension Plan

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Pension Plan (Continued)

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

9. Long-Term Obligations

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

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

10. Classification of Net Position

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

- Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position – the amount of net position that does not meet the definition of restricted.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances

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

- Nonspendable – amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.
- Restricted – amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Committed – amounts that can be used only for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.
- Assigned – amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Auditor/Treasurer, who has been delegated that authority by Board resolution.
- Unassigned – the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

**CARLTON COUNTY
CARLTON, MINNESOTA**

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)

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

12. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Change in Accounting Principles

During the year ended December 31, 2020, the County adopted new accounting guidance by implementing the provisions of GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying and reporting fiduciary activities. The implementation of this statement has resulted in changing the presentation of the financial statements by recording the Social Welfare Private-Purpose Trust Fund that was not previously reported, and including accruals and ending net position to custodial funds not previously required. Beginning net position has been restated to reflect this change.

	Social Welfare Private-Purpose Trust Fund	Custodial Funds
Net Position, January 1, 2020, as previously reported	\$ -	\$ -
Change in accounting principles	104,977	2,133,754
Net Position, January 1, 2020, as restated	\$ 104,977	\$ 2,133,754

**CARLTON COUNTY
CARLTON, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity

At December 31, 2020, the Capital Projects Special Revenue Fund had a deficit fund balance of \$566,384. This deficit will be made up with other County revenue sources.

3. Detailed Notes

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 40,847,186
Statement of fiduciary net position	
Cash and pooled investments	<u>2,147,993</u>
Total Cash and Investments	<u>\$ 42,995,179</u>

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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a policy on custodial credit risk for deposits. As of December 31, 2020, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's practice to invest only in instruments authorized by Minnesota statutes.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy on custodial credit risk for investments. As of December 31, 2020, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County's practice is to make investments which create diversification and avoid risk.

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

The following table represents the County's deposit and investment balances at December 31, 2020, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Federal Home Loan Mortgage Corporation Note	Aaa/AA+	Moody's/S&P	<5%	02/01/2028	\$ 504
Federal National Mortgage Association	Aaa/AA+	Moody's/S&P	<5%	10/01/2025	\$ 567
U.S. Treasury Notes	Aaa/AA+	Moody's/S&P		01/31/2022	\$ 253,360
U.S. Treasury Notes	Aaa/AA+	Moody's/S&P		02/28/2022	252,950
U.S. Treasury Notes	Aaa/AA+	Moody's/S&P		03/31/2022	250,790
Total U.S. Treasury Notes			<5%		\$ 757,100
Negotiable certificates of deposit					
Bank of India NY	N/A	N/A	<5%	01/06/2021	\$ 245,043
TCF Natl Bank Sioux Falls	N/A	N/A	<5%	01/08/2021	245,062
Seacoast Natl Bank	N/A	N/A	<5%	01/09/2021	245,075
Opus Bank	N/A	N/A	<5%	01/19/2021	245,142
Sallie Mae Bank	N/A	N/A	<5%	02/08/2021	245,650
Live Oak Banking Co	N/A	N/A	<5%	03/09/2021	246,174
Bankers Bank	N/A	N/A	<5%	03/22/2021	246,396
MUFG Union Bank NA	N/A	N/A	<5%	04/01/2021	245,683
Safra Natl Bank	N/A	N/A	<5%	04/07/2021	245,761
Third Federal Savings & Loan Bank	N/A	N/A	<5%	05/28/2021	247,471
Wells Fargo Natl Bank West	N/A	N/A	<5%	06/30/2021	247,097
Valley NB	N/A	N/A	<5%	04/16/2021	245,796
Truist Bank	N/A	N/A	<5%	04/20/2021	245,828
Bank of Hapoalim	N/A	N/A	<5%	12/23/2021	245,108
Washington Trust Westerly	N/A	N/A	<5%	12/23/2021	245,107
Merrick Bank	N/A	N/A	<5%	12/30/2021	245,106
Enerbank	N/A	N/A	<5%	01/28/2022	251,703
Two River Community Bank	N/A	N/A	<5%	02/28/2022	252,211
Summit Community Bank	N/A	N/A	<5%	03/16/2022	252,367
Wex Bank	N/A	N/A	<5%	04/08/2022	249,164
Synchrony Bank	N/A	N/A	<5%	02/23/2023	258,598
Belmont Savings Bank	N/A	N/A	<5%	02/28/2023	258,665
Wells Fargo Bank	N/A	N/A	<5%	02/28/2023	258,930
Morgan Stanley Bank NA	N/A	N/A	<5%	03/01/2023	259,225
Bank of Delmarva	N/A	N/A	<5%	03/16/2023	258,960
Total negotiable certificates of deposit					\$ 6,231,322

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Investment pools/mutual funds					
MAGIC Fund	N/A	N/A		N/A	\$ 27,661,037
MAGIC Term	N/A	N/A		N/A	8,000,000
Total Investment pools/mutual funds			83.6%		\$ 35,661,037
Total investments					\$ 42,650,530
Deposits and non-negotiable certificates of deposit					336,149
Petty cash					8,500
Total Cash and Investments					\$ 42,995,179

N/A – Not Applicable

S&P – Standard & Poor’s

<5% – Concentration is less than 5% of investments

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

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

At December 31, 2020, the County had the following recurring fair value measurements.

	December 31, 2020	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
Federal Home Loan Mortgage Corporation Notes	\$ 504	\$ -	\$ 504	\$ -
Federal National Mortgage Association U.S. Treasury Notes	567 757,100	- -	567 757,100	- -
Negotiable certificates of deposit	6,231,322	-	6,231,322	-
Total Investments by Fair Value Hierarchy	\$ 6,989,493	\$ -	\$ 6,989,493	\$ -
Investments measured at the net asset value (NAV)				
MAGIC Portfolio	\$ 27,661,037			
MAGIC Term	8,000,000			
Total investments measured at the NAV	\$ 35,661,037			
Total Investments	\$ 42,650,530			

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

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

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

2. Receivables

Receivables as of December 31, 2020, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 617,813	\$ -
Special assessments	28,679	-
Accounts	1,087,810	-
Accrued interest	30,776	-
Due from other governments	3,666,289	-
Loans receivable	1,700,252	1,537,257
Total Governmental Activities	\$ 7,131,619	\$ 1,537,257

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

A. Assets

2. Receivables (Continued)

Loans receivable represent amounts owed from private/public enterprises within the County for economic development and from individuals for septic system repair. The revolving loan fund activity is included in the General Fund. At year-end, the County had 44 loans with balances outstanding. Scheduled collections on these loans range from one to nine years.

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2020, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Forfeited Tax	\$ 276,012	Forfeited tax apportionment and payment of fees
Road and Bridge	General	\$ 636	Reimburse supplies and services
	Forfeited Tax	273	Reimburse supplies and services
Total due to Road and Bridge Fund		<u>\$ 909</u>	
Total Due To/From Other Funds		<u>\$ 276,921</u>	

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2020, consisted of the following:

<u>Interfund Transfers</u>	<u>Amount</u>	<u>Purpose</u>
Transfers to General Fund from Forfeited Tax Fund	\$ 186,012	Forfeited tax apportionment
Transfers to Road and Bridge Fund from General Fund	7,442	CARES Act funding
Transfers to Human Services Fund from General Fund	<u>414,554</u>	Collection of Title IV-D funds and CARES Act funding
Total Interfund Transfers	<u>\$ 608,008</u>	

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes (Continued)

C. Liabilities

1. Long-Term Debt

Bonds Payable

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

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2020
2012A G.O. Capital Improvement Refunding Bonds	2021	\$250,000 - \$560,000	0.40 - 1.50	\$ 4,010,000	\$ 560,000
2016A G.O. Capital Improvement Refunding Bonds	2030	\$215,000 - \$900,000	2.00	8,620,000	7,565,000
2020A G.O Capital Improvement Bonds	2040	\$375,000 - \$575,000	2.00 - 3.00	9,500,000	9,500,000
Total				<u>\$ 22,130,000</u>	<u>\$ 17,625,000</u>
Plus: unamortized premium					<u>693,452</u>
Total General Obligation Bonds, Net					<u>\$ 18,318,452</u>

2. Debt Service Requirements

Debt service requirements at December 31, 2020, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2021	\$ 1,255,000	\$ 369,400
2022	965,000	344,725
2023	980,000	321,450
2024	1,270,000	295,000
2025	1,295,000	265,300
2026 - 2030	6,585,000	882,450
2031 - 2035	2,500,000	404,500
2036 - 2040	2,775,000	140,750
Total	<u>\$ 17,625,000</u>	<u>\$ 3,023,575</u>

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

C. Liabilities (Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
General obligation bonds	\$ 8,965,000	\$ 9,500,000	\$ 840,000	\$ 17,625,000	\$ 1,255,000
Bond premium	233,738	499,702	39,988	693,452	-
Compensated absences	<u>3,731,757</u>	<u>3,988,012</u>	<u>3,490,280</u>	<u>4,229,489</u>	<u>-</u>
Governmental Activities					
Long-Term Liabilities	<u>\$ 12,930,495</u>	<u>\$ 13,987,714</u>	<u>\$ 4,370,268</u>	<u>\$ 22,547,941</u>	<u>\$ 1,255,000</u>

D. Other Postemployment Benefits (OPEB)

1. Plan Description and Funding Policy

Carlton County provides post-retirement health care benefits for retired permanent full-time employees from age 55 to age 65 and their authorized dependents under a single-employer defined benefit health care plan. The percentage of premium paid varies depending on the years of service. The County finances the plan on a pay-as-you-go basis. Premiums are charged to the department from which the employee retired. The authority to provide these benefits is established in Minn. Stat. § 471.61, subd. 2b. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy.

No assets have been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75. The OPEB plan does not issue a stand-alone financial report.

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

D. Other Postemployment Benefits (OPEB)

1. Plan Description and Funding Policy (Continued)

As of the January 1, 2019, actuarial valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	56
Active plan participants	<u>331</u>
Total	<u><u>387</u></u>

2. Total OPEB Liability

The County's total OPEB liability of \$15,993,576 was measured as of January 1, 2020, and was determined by an actuarial valuation as of January 1, 2019. The OPEB liability is liquidated by the General Fund and the Road and Bridge, Human Services, and Forfeited Tax Special Revenue Funds.

The total OPEB liability in the fiscal year-end December 31, 2020, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.00 percent, average wage inflation plus merit/productivity increases
Health care cost trend	6.25 percent, decreasing to 5.00 percent over five years

The current year discount rate is 2.90 percent. For the current valuation, the discount rate was selected from a range of the Bond Buyer G.O. 20-year bond Municipal Bond Index, the S&P Municipal Bond 20-year High Grade Rate Index, and the Fidelity 20-year G.O. Municipal Bond Index, where the range is given as the spread between the lowest and highest rate.

Mortality rates are based on RP-2014 Mortality tables with MP-2018 Generational Improvement Scale.

The actuarial assumptions are currently based on a combination of historical information and the most recent actuarial valuation for PERA as of June 30, 2019.

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

D. Other Postemployment Benefits (OPEB) (Continued)

3. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2019	\$ 14,425,959
Changes for the year	
Service cost	\$ 1,016,715
Interest	571,887
Assumption changes	772,466
Benefit payments	(793,451)
Net change	\$ 1,567,617
Balance at December 31, 2020	\$ 15,993,576

4. OPEB Liability Sensitivity

The following presents the total OPEB liability of the County, calculated using the discount rate previously disclosed, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	Discount Rate	Total OPEB Liability
1% Decrease	1.90%	\$ 17,058,676
Current	2.90	15,993,576
1% Increase	3.90	14,981,069

The following presents the total OPEB liability of the County, calculated using the health care cost trend previously disclosed, as well as what the County's total OPEB liability would be if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rate:

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

D. Other Postemployment Benefits (OPEB)

4. OPEB Liability Sensitivity (Continued)

	Health Care Trend Rate	Total OPEB Liability
1% Decrease	5.00% Decreasing to 4.00%	\$ 14,327,196
Current	6.00% Decreasing to 5.00%	15,993,576
1% Increase	7.00% Decreasing to 6.00%	17,951,526

5. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2020, the County recognized OPEB expense of \$754,246. The County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in actuarial assumptions	\$ 662,113	\$ -
Subsidized payments subsequent to the measurement date	944,709	-
Total	\$ 1,606,822	\$ -

The \$944,709 reported as subsidized payments subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2021. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ended December 31	OPEB Expense Amount
2021	\$ 110,353
2022	110,353
2023	110,353
2024	110,353
2025	110,353
Thereafter	110,348

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

D. Other Postemployment Benefits (OPEB) (Continued)

6. Changes in Actuarial Methods and Assumptions

The following change in actuarial assumptions occurred in 2020:

- The discount rate was changed from 3.80 percent to 2.90 percent.

E. Pension Plans

1. Defined Benefit Pension Plans

a. Plan Description

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

The General Employees Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security, and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No Carlton County employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

a. Plan Description (Continued)

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

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

b. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January.

General Employees Plan benefit recipients will receive a post-retirement increase equal to 50 percent of the cost of living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and maximum of 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

b. Benefits Provided (Continued)

For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under the Rule of 90 are exempt from the delay to normal retirement.

Police and Fire Plan benefit recipients will receive a 1.00 percent post-retirement increase. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

Correctional Plan benefit recipients will receive a post-retirement increase equal to 100 percent of the cost of living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and maximum of 2.50 percent. If the Correctional Plan's funding status declines to 85 percent or below for two consecutive years or 80 percent for one year, the maximum will be lowered from 2.50 percent to 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

b. Benefits Provided (Continued)

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

For General Employees Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. For Police and Fire Plan and Correctional Plan members, normal retirement age is 55, and for members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90. Disability benefits are available for vested members and are based on years of service and average high-five salary.

c. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Plan members were required to contribute 6.50 percent of their annual covered salary in 2020.

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

c. Contributions (Continued)

Police and Fire Plan members were required to contribute 11.80 percent of their annual covered salary in 2020. Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2020.

In 2020, the County was required to contribute the following percentages of annual covered salary:

General Employees Plan – Coordinated Plan members	7.50%
Police and Fire Plan	17.70
Correctional Plan	8.75

The Police and Fire Plan member and employer contribution rates increased 0.50 percent and 0.75 percent, respectively, from 2019.

The County's contributions for the year ended December 31, 2020, to the pension plans were:

General Employees Plan	\$	1,431,609
Police and Fire Plan		400,352
Correctional Plan		100,038

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

d. Pension Costs

General Employees Plan

At December 31, 2020, the County reported a liability of \$15,234,456 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2020, 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

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

General Employees Plan (Continued)

liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2020, the County's proportion was 0.2541 percent. It was 0.2468 percent measured as of June 30, 2019. The County recognized pension expense of \$894,420 for its proportionate share of the General Employees Plan's pension expense.

The County also recognized \$40,879 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan annually until September 15, 2031.

The County's proportionate share of the net pension liability	\$ 15,234,456
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>469,713</u>
Total	<u>\$ 15,704,169</u>

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

General Employees Plan (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 135,031	\$ 57,640
Changes in actuarial assumptions	-	559,301
Difference between projected and actual investment earnings	286,311	-
Changes in proportion	400,055	155,332
Contributions paid to PERA subsequent to the measurement date	745,900	-
Total	\$ 1,567,297	\$ 772,273

The \$745,900 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, 2021. 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
2021	\$ (719,431)
2022	10,591
2023	389,894
2024	368,070

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs (Continued)

Police and Fire Plan

At December 31, 2020, the County reported a liability of \$2,582,172 for its proportionate share of the Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2020, the County's proportion was 0.1959 percent. It was 0.2065 percent measured as of June 30, 2019. The County recognized pension expense of \$359,797 for its proportionate share of the Police and Fire Plan's pension expense.

The State of Minnesota also contributed \$13.5 million to the Police and Fire Plan in the plan fiscal year ended June 30, 2020. The contribution consisted of \$4.5 million in direct state aid that meets the definition of a special funding situation and \$9 million in supplemental state aid that does not meet the definition of a special funding situation.

Legislation required the State of Minnesota to pay direct state aid of \$4.5 million on October 1, 2019, and to pay \$9 million by October 1 of each subsequent year until full funding is reached, or July 1, 2048, whichever is earlier. The County recognized an additional \$18,714 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's pension expense related to the special funding situation.

The County's proportionate share of the net pension liability	\$ 2,582,172
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>60,827</u>
Total	<u>\$ 2,642,999</u>

**CARLTON COUNTY
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3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Police and Fire Plan (Continued)

Legislation also requires the State of Minnesota to contribute \$9 million to the Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded, or until the State Patrol Plan is 90 percent funded, whichever occurs later. The County also recognized \$17,631 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Police and Fire Plan.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 112,799	\$ 116,428
Changes in actuarial assumptions	821,609	1,496,651
Difference between projected and actual investment earnings	99,453	-
Changes in proportion	188,798	161,040
Contributions paid to PERA subsequent to the measurement date	213,338	-
Total	\$ 1,435,997	\$ 1,774,119

The \$213,338 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, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

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CARLTON, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Police and Fire Plan (Continued)

Year Ended December 31	Pension Expense Amount
2021	\$ (137,477)
2022	(660,162)
2023	143,782
2024	119,411
2025	(17,014)

Correctional Plan

At December 31, 2020, the County reported a liability of \$132,197 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2020, the County's proportion was 0.4872 percent. It was 0.4684 percent measured as of June 30, 2019. The County recognized pension expense of (\$216,150) for its proportionate share of the Correctional Plan's pension expense.

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

**CARLTON COUNTY
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3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Correctional Plan (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,245	\$ 48,472
Changes in actuarial assumptions	-	268,712
Difference between projected and actual investment earnings	24,697	-
Changes in proportion	1,952	2,092
Contributions paid to PERA subsequent to the measurement date	53,305	-
Total	\$ 81,199	\$ 319,276

The \$53,305 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, 2021. 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
2021	\$ (308,773)
2022	(14,462)
2023	8,004
2024	23,849

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2020, was \$1,038,067.

e. Actuarial Assumptions

The total pension liability in the June 30, 2020, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

	<u>General Employees Fund</u>	<u>Police and Fire Fund</u>	<u>Correctional Fund</u>
Inflation	2.25% per year	2.50% per year	2.50% per year
Active Member Payroll Growth	3.00% per year	3.25% per year	3.25% per year
Investment Rate of Return	7.50%	7.50%	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on the Pub-2010 General Employee Mortality table for the General Employees Plan and the RP-2014 mortality tables for the Police and Fire and the Correctional Plans, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.25 percent for the General Employees Plan and 2.00 percent for the Correctional Plan. For the Police and Fire Plan, cost of living benefit increases for retirees are 1.00 percent as set by state statute.

Actuarial assumptions used in the June 30, 2020, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 27, 2019. The experience study for the Police and Fire Plan was dated August 30, 2016. The experience study for the Correctional Plan was dated February 2012. The mortality assumption for the Correctional Plan is based on the Police and Fire Plan experience study. Inflation and investment assumptions for all plans were reviewed in the experience study report for the General Employees Plan.

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

e. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. equities	35.50%	5.10%
Broad international stock pool	17.50	5.30
Bond pool	20.00	0.75
Alternatives	25.00	5.90
Cash equivalents	2.00	0.00

f. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2020, which remained consistent with 2019. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net positions of the General Employees Plan, the Police and Fire Plan, and the Correctional Plan were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans (Continued)

g. Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2020:

General Employees Plan

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years two to five and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The changes result in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Employee Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality table to the Pub-2010 General/Teacher Disabled Retiree Mortality table, with adjustments.

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

g. Changes in Actuarial Assumptions and Plan Provisions

General Employees Plan (Continued)

- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100 percent Joint and Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint and Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.
- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020, through December 31, 2023, and 0.00 percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

Police and Fire Plan

- The mortality projection scale was changed from MP-2018 to MP-2019.

Correctional Plan

- The mortality projection scale was changed from MP-2018 to MP-2019.

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans (Continued)

h. Pension Liability Sensitivity

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

	Proportionate Share of the					
	General Employees Plan		Police and Fire Plan		Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 24,415,549	6.50%	\$ 5,146,640	6.50%	\$ 821,590
Current	7.50	15,234,456	7.50	2,582,172	7.50	132,197
1% Increase	8.50	7,660,792	8.50	460,524	8.50	(419,767)

i. Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

2. Defined Contribution Plan

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes

E. Pension Plans

2. Defined Contribution Plan (Continued)

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 five 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 two percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by Carlton County during the year ended December 31, 2020, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 6,048	\$ 6,048
Percentage of covered payroll	5.00%	5.00%

4. Postemployment Health Care

A. MSRS Health Care Savings Plan

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

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

4. Postemployment Health Care

A. MSRS Health Care Savings Plan (Continued)

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

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

B. Northland VEBA Trust Plan

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

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

Eligibility requirements include:

- be an active employee or retiree of a public entity,
- active employees must have a high-deductible health plan, and
- be a member of a bargaining unit that has approved the VEBA plan.

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5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County's group health insurance is through the Northeast Service Cooperative (NESC). For other risks, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2020 and 2021. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

**CARLTON COUNTY
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5. Summary of Significant Contingencies and Other Items (Continued)

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

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

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

C. Conduit Debt

On February 10, 2015, the Carlton County Board of Commissioners approved a request from Augustana Mercy Care Center, LLC, and Augustana Oakview Care, LLC, for the County to issue \$5,805,000 in revenue bonds, pursuant to the Minnesota Municipal Industrial Development Act, Minn. Stat. §§ 469.152 through 469.165, as amended. The proceeds from the bonds were used to finance the acquisition and improvement of the Oakview Care Facilities (\$4,220,000) and the acquisition and installation of equipment in the Augustana Mercy Care Facilities (\$1,585,000). Both facilities are located in the City of Moose Lake. The bonds are secured by the properties financed and are payable solely from the revenues of Augustana Mercy Care Center, LLC, and Augustana Oakview Care, LLC. The County is not obligated in any manner for repayment of the bonds. The bonds were issued on March 2, 2015. As of December 31, 2020, the outstanding principal balance was \$4,955,000.

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

D. Joint Ventures

Arrowhead Regional Corrections

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

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

Arrowhead Regional Corrections is governed by an eight-member Board composed of one member appointed from each of the participating counties' Boards of Commissioners, except for St. Louis County, which has three members appointed by its Board. In addition, the right to have an additional member is annually rotated among Carlton, Cook, Koochiching, and Lake Counties. Arrowhead Regional Corrections is financed through state grants and contributions from the participating counties. Carlton County provided \$1,980,105 in funding in 2020.

Separate financial information can be obtained from Arrowhead Regional Corrections, 211 West Second Street, Suite 450, Duluth, Minnesota 55802.

Carlton County Children and Family Service Collaborative

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

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

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5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Carlton County Children and Family Service Collaborative (Continued)

Control of the Collaborative is vested in a Board of Directors. Carlton County has two members on the Board. Financing is provided by state and local grants, appropriations from Collaborative members, and miscellaneous revenues. Carlton County is the fiscal agent for the Collaborative and handles all of the financial transactions for this organization. Financial information for the Collaborative for the fiscal year ended December 31, 2020, is accounted for in a custodial fund of Carlton County.

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

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

The Community Health Board is composed of nine members. The Carlton, Cook, and Lake County Boards of Commissioners each appoint two members; the St. Louis County Board of Commissioners appoints three members. Financing is obtained through federal and state grants. Carlton County provided no funding to this organization in 2020.

Separate financial information can be obtained from Carlton, Cook, Lake, and St. Louis Community Health Board, 404 West Superior Street, Suite 220, Duluth, Minnesota 55802.

Northeast Minnesota Office of Job Training

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

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5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

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

Separate financial information can be obtained from Northeast Minnesota Office of Job Training, 820 North 9th Street, Suite 210, Virginia, Minnesota 55792.

Minnesota Counties Information Systems (MCIS)

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

MCIS is governed by an 11-member Board, composed of a member appointed by each of the participating counties' Board of Commissioners. Financing is obtained through user charges to the members. Lake County is the fiscal agent for MCIS.

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

Separate financial information can be obtained from Minnesota Counties Information Systems, 413 Southeast 7th Avenue, Grand Rapids, Minnesota 55744.

Arrowhead Health Alliance

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

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5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Arrowhead Health Alliance (Continued)

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

Carlton County contributed \$252,397 in start-up funds to the Arrowhead Health Alliance in 2007. Carlton County provided \$28,345 in funding in 2020.

Northeast Minnesota Emergency Communications Board (NEECB)

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

The joint powers are the Counties of Aitkin, Carlton, Cass, Cook, Crow Wing, Itasca, Kanabec, Koochiching, Lake, Pine, and St. Louis, and the Cities of Duluth, Hibbing, International Falls, and Virginia, along with three tribes including Grand Portage Band of Chippewa, Leech Lake Band of Ojibwe, and Mille Lacs Band of Ojibwe. Control of the Northeast Minnesota Emergency Communications Board is vested in a Board of Directors composed of one County Commissioner from each of the member counties, one City Council member from each of the member cities, and one tribal member. In addition, there is one member from the Northeast Minnesota Regional Advisory Committee, one member from the Northeast Minnesota Emergency Communications System User Committee, and one member from the Northeast Minnesota Owners and Operators Committee who are also voting members of the Board.

St. Louis County is the fiscal agent for the Northeast Minnesota Emergency Communications Board. Funding is provided by grants and contributions from participating members. During the current year, Carlton County provided no funding to the Board.

Separate financial information can be obtained from St. Louis County, 100 North 5th Avenue West, Room 201, Duluth, Minnesota 55802-1293.

**CARLTON COUNTY
CARLTON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Region Two – Northeast Minnesota Homeland Security Emergency Management Organization

The Region Two – Northeast Minnesota Homeland Security Emergency Management Organization was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the region. Control is vested in the Board, which is composed of representatives appointed by each Board of County Commissioners. Carlton County's responsibility does not extend beyond making this appointment.

Minnesota Criminal Justice Data Communications Network

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

E. Tax-Forfeited Land

The County manages approximately 72,000 acres of state-owned, tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

F. Carlton County Economic Development Authority

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

F. Carlton County Economic Development Authority (Continued)

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

6. Subsequent Event

On March 11, 2021, the President of the United States signed an amended version of the COVID Relief Package, the American Rescue Plan, which includes \$65.1 billion in direct, flexible aid for counties in America. The U.S Department of the Treasury will oversee and administer payments of the State and Local Coronavirus Recovery Funds to state and local governments, for which every county is eligible to receive a direct allocation from the Treasury. Counties will receive funds in two tranches – 50 percent in 2021 and the remaining 50 percent no earlier than 12 months from the first payment. The U.S. Treasury is required to pay the first tranche to counties no later than 60 days after enactment. Carlton County's projected allocation of the State and Local Coronavirus Recovery Funds is \$ 6,967,521.

REQUIRED SUPPLEMENTARY INFORMATION

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 16,479,308	\$ 16,479,308	\$ 16,373,863	\$ (105,445)
Special assessments	575,000	575,000	581,444	6,444
Licenses and permits	85,400	85,400	98,315	12,915
Intergovernmental	6,258,131	6,258,131	10,299,042	4,040,911
Charges for services	2,350,400	2,350,400	2,556,680	206,280
Fines and forfeits	46,000	46,000	47,302	1,302
Gifts and contributions	152,039	152,039	190,988	38,949
Investment earnings	533,600	533,600	292,066	(241,534)
Miscellaneous	1,068,025	1,068,025	780,419	(287,606)
	<u>\$ 27,547,903</u>	<u>\$ 27,547,903</u>	<u>\$ 31,220,119</u>	<u>\$ 3,672,216</u>
Total Revenues				
Expenditures				
Current				
General government				
Commissioners	\$ 666,769	\$ 666,769	\$ 593,216	\$ 73,553
Restorative justice	330,062	330,062	295,756	34,306
Courts	240,704	240,704	154,659	86,045
County auditor	1,409,570	1,409,570	1,407,904	1,666
License bureau	451,328	451,328	405,917	45,411
County assessor	856,923	856,923	801,319	55,604
Personnel	576,013	576,013	567,207	8,806
Information technology	1,563,870	1,563,870	1,601,829	(37,959)
Attorney	1,535,737	1,535,737	1,471,632	64,105
Law library	35,000	35,000	40,829	(5,829)
Recorder	550,715	550,715	619,522	(68,807)
Surveyor	15,000	15,000	15,000	-
Planning and zoning	472,552	472,552	449,875	22,677
Maintenance	1,393,094	1,393,094	1,687,741	(294,647)
Veterans service officer	346,695	346,695	324,768	21,927
Community and family services	253,743	253,743	238,675	15,068
	<u>\$ 10,697,775</u>	<u>\$ 10,697,775</u>	<u>\$ 10,675,849</u>	<u>\$ 21,926</u>
Total general government				

**CARLTON COUNTY
CARLTON, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 4,065,400	\$ 4,065,400	\$ 4,094,540	\$ (29,140)
Snowmobile safety	4,836	4,836	2,092	2,744
Boat and water safety	11,599	11,599	13,393	(1,794)
Ambulance	86,873	86,873	94,373	(7,500)
Animal control	25,000	25,000	22,120	2,880
Coroner	98,000	98,000	104,072	(6,072)
E-911	1,295,063	1,295,063	1,593,619	(298,556)
County jail	2,627,371	2,627,371	2,343,874	283,497
Community corrections	2,059,427	2,059,427	1,974,427	85,000
Court services	121,569	121,569	102,013	19,556
Civil defense	169,816	169,816	130,672	39,144
Total public safety	\$ 10,564,954	\$ 10,564,954	\$ 10,475,195	\$ 89,759
Sanitation				
Solid waste	\$ 1,543,281	\$ 1,543,281	\$ 1,502,068	\$ 41,213
Recycling	262,031	262,031	257,247	4,784
Total sanitation	\$ 1,805,312	\$ 1,805,312	\$ 1,759,315	\$ 45,997
Culture and recreation				
Historical society	\$ 35,000	\$ 35,000	\$ 35,000	\$ -
County fair	37,750	37,750	37,750	-
Parks	313,844	313,844	249,770	64,074
Regional library	152,490	152,490	152,490	-
Total culture and recreation	\$ 539,084	\$ 539,084	\$ 475,010	\$ 64,074
Conservation of natural resources				
County extension	\$ 442,282	\$ 442,282	\$ 413,598	\$ 28,684
Soil and water conservation	152,715	152,715	152,715	-
Weed inspector	8,398	8,398	6,944	1,454
Timber development	27,000	27,000	21,733	5,267
Resource development	56,520	56,520	38,252	18,268
Water planning	275,455	275,455	250,412	25,043
Other conservation	8,000	8,000	-	8,000
Total conservation of natural resources	\$ 970,370	\$ 970,370	\$ 883,654	\$ 86,716

**CARLTON COUNTY
CARLTON, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Airport commission	\$ 3,045,794	\$ 3,045,794	\$ 1,697,606	\$ 1,348,188
Rail authority	2,300	2,300	8,350	(6,050)
Arrowhead Regional Development	60,263	60,263	-	60,263
Iron Range Resources and Rehabilitation Board	583,630	583,630	1,591,954	(1,008,324)
Total economic development	\$ 3,691,987	\$ 3,691,987	\$ 3,297,910	\$ 394,077
Total Expenditures	\$ 28,269,482	\$ 28,269,482	\$ 27,566,933	\$ 702,549
Excess of Revenues Over (Under)				
Expenditures	\$ (721,579)	\$ (721,579)	\$ 3,653,186	\$ 4,374,765
Other Financing Sources (Uses)				
Transfers in	\$ 147,000	\$ 147,000	\$ 186,012	\$ 39,012
Transfers out	-	-	(421,996)	(421,996)
Total Other Financing Sources (Uses)	\$ 147,000	\$ 147,000	\$ (235,984)	\$ (382,984)
Net Change in Fund Balance	\$ (574,579)	\$ (574,579)	\$ 3,417,202	\$ 3,991,781
Fund Balance – January 1	19,025,579	19,025,579	19,025,579	-
Fund Balance – December 31	\$ 18,451,000	\$ 18,451,000	\$ 22,442,781	\$ 3,991,781

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 7,852,901	\$ 7,852,901	\$ 5,505,047	\$ (2,347,854)
Intergovernmental	7,447,834	7,447,834	10,761,719	3,313,885
Charges for services	459,000	459,000	553,362	94,362
Investment earnings	-	-	3,030	3,030
Miscellaneous	271,794	271,794	224,925	(46,869)
Total Revenues	\$ 16,031,529	\$ 16,031,529	\$ 17,048,083	\$ 1,016,554
Expenditures				
Current				
Administration	\$ 1,001,108	\$ 1,001,108	\$ 801,733	\$ 199,375
Maintenance	3,057,782	3,057,782	3,652,445	(594,663)
Construction	9,748,732	9,748,732	11,330,605	(1,581,873)
Equipment maintenance and shop	2,498,907	2,498,907	1,359,240	1,139,667
Total Expenditures	\$ 16,306,529	\$ 16,306,529	\$ 17,144,023	\$ (837,494)
Excess of Revenues Over (Under) Expenditures	\$ (275,000)	\$ (275,000)	\$ (95,940)	\$ 179,060
Other Financing Sources (Uses)				
Transfers in	-	-	7,442	7,442
Net Change in Fund Balance	\$ (275,000)	\$ (275,000)	\$ (88,498)	\$ 186,502
Fund Balance – January 1	3,022,873	3,022,873	3,022,873	-
Increase (decrease) in inventories	-	-	17,686	17,686
Fund Balance – December 31	\$ 2,747,873	\$ 2,747,873	\$ 2,952,061	\$ 204,188

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 7,888,598	\$ 7,888,598	\$ 7,759,442	\$ (129,156)
Intergovernmental	11,341,665	11,341,665	10,606,986	(734,679)
Charges for services	1,770,266	1,770,266	2,100,673	330,407
Gifts and contributions	83,887	83,887	84,010	123
Miscellaneous	303,500	303,500	256,079	(47,421)
Total Revenues	\$ 21,387,916	\$ 21,387,916	\$ 20,807,190	\$ (580,726)
Expenditures				
Current				
Human services				
Income maintenance	\$ 5,463,779	\$ 5,463,779	\$ 5,289,836	\$ 173,943
Social services	14,461,139	14,461,139	12,855,816	1,605,323
Total human services	\$ 19,924,918	\$ 19,924,918	\$ 18,145,652	\$ 1,779,266
Health	2,099,898	2,099,898	2,491,839	(391,941)
Total Expenditures	\$ 22,024,816	\$ 22,024,816	\$ 20,637,491	\$ 1,387,325
Excess of Revenues Over (Under) Expenditures	\$ (636,900)	\$ (636,900)	\$ 169,699	\$ 806,599
Other Financing Sources (Uses)				
Transfers in	13,400	13,400	414,554	401,154
Net Change in Fund Balance	\$ (623,500)	\$ (623,500)	\$ 584,253	\$ 1,207,753
Fund Balance – January 1	14,718,787	14,718,787	14,718,787	-
Fund Balance – December 31	\$ 14,095,287	\$ 14,095,287	\$ 15,303,040	\$ 1,207,753

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ -	\$ -	\$ 21,626	\$ 21,626
Miscellaneous	447,669	447,669	884,691	437,022
Total Revenues	\$ 447,669	\$ 447,669	\$ 906,317	\$ 458,648
Expenditures				
Current				
Conservation of natural resources				
Land use	447,669	447,669	543,827	(96,158)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 362,490	\$ 362,490
Other Financing Sources (Uses)				
Transfers out	-	-	(186,012)	(186,012)
Net Change in Fund Balance	\$ -	\$ -	\$ 176,478	\$ 176,478
Fund Balance – January 1	100,165	100,165	100,165	-
Fund Balance – December 31	\$ 100,165	\$ 100,165	\$ 276,643	\$ 176,478

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2020**

	2020	2019
Total OPEB Liability		
Service cost	\$ 1,016,715	\$ 854,925
Interest	571,887	543,146
Changes of assumption or other inputs	772,466	-
Benefit payments	(793,451)	(813,447)
Net change in total OPEB liability	\$ 1,567,617	\$ 584,624
Total OPEB Liability – Beginning, as restated	14,425,959	13,841,335
Total OPEB Liability – Ending	\$ 15,993,576	\$ 14,425,959
Covered-employee payroll	\$ 20,560,309	\$ 19,961,465
Total OPEB liability (asset) as a percentage of covered-employee payroll	77.79%	72.27%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2020**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Carlton County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	0.2541 %	\$ 15,234,456	\$ 469,713	\$ 15,704,169	\$ 18,130,240	84.03 %	79.06 %
2019	0.2468	13,645,019	424,148	14,069,167	17,466,587	78.12	80.23
2018	0.2524	14,002,118	459,331	14,461,449	16,963,560	82.54	79.53
2017	0.2463	15,723,630	197,710	15,921,340	15,867,080	99.10	75.90
2016	0.2409	19,559,886	255,516	19,815,402	14,950,027	130.84	68.91
2015	0.2434	12,614,251	N/A	12,614,251	14,301,656	88.20	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

The measurement date for each year is June 30.

N/A – Not Applicable

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2020**

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)
2020	\$ 1,431,609	\$ 1,431,609	\$ -	\$ 19,088,120	7.50 %
2019	1,331,893	1,331,893	-	17,758,573	7.50
2018	1,292,250	1,292,250	-	17,230,000	7.50
2017	1,238,426	1,238,426	-	16,512,347	7.50
2016	1,151,435	1,151,435	-	15,352,467	7.50
2015	1,096,628	1,096,628	-	14,621,707	7.50

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-8

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2020**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Carlton County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	0.1959 %	\$ 2,582,172	\$ 60,827	\$ 2,642,999	\$ 2,212,517	116.71 %	87.19 %
2019	0.2065	2,198,401	N/A	2,198,401	2,177,632	100.95	89.26
2018	0.1916	2,042,259	N/A	2,042,259	2,019,309	101.14	88.84
2017	0.1810	2,443,715	N/A	2,443,715	1,860,772	131.33	85.43
2016	0.1860	7,464,504	N/A	7,464,504	1,791,096	416.76	63.88
2015	0.1800	2,045,221	N/A	2,045,221	1,646,691	124.20	86.61

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-9

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2020**

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)
2020	\$ 400,352	\$ 400,352	\$ -	\$ 2,261,876	17.70 %
2019	380,996	380,996	-	2,247,764	16.95
2018	341,085	341,085	-	2,105,463	16.20
2017	319,460	319,460	-	1,971,975	16.20
2016	287,427	287,427	-	1,774,241	16.20
2015	282,619	282,619	-	1,744,562	16.20

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-10

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES LOCAL GOVERNMENT CORRECTIONAL SERVICE RETIREMENT PLAN
DECEMBER 31, 2020**

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
2020	0.4872 %	\$ 132,197	\$ 1,052,846	12.56 %	96.67 %
2019	0.4684	64,850	999,200	6.49	98.17
2018	0.4895	80,508	999,806	8.05	97.64
2017	0.4900	1,396,505	982,183	142.18	67.89
2016	0.4500	1,643,914	845,589	194.41	58.16
2015	0.4300	66,478	779,829	8.52	96.95

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT A-11

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES LOCAL GOVERNMENT CORRECTIONAL SERVICE RETIREMENT PLAN
DECEMBER 31, 2020**

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)
2020	\$ 100,038	\$ 100,038	\$ -	\$ 1,143,291	8.75 %
2019	89,142	89,142	-	1,018,766	8.75
2018	86,975	86,975	-	994,000	8.75
2017	89,907	89,907	-	1,027,509	8.75
2016	78,221	78,221	-	893,954	8.75
2015	71,483	71,483	-	816,949	8.75

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2020

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the County did not budget for the Capital Projects Fund. All annual appropriations lapse at fiscal year-end.

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

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2020, expenditures exceeded appropriations in the following funds:

	Final Budget	Actual	Excess
Road and Bridge Special Revenue Fund	\$ 16,306,529	\$ 17,144,023	\$ 837,494
Forfeited Tax Special Revenue Fund	447,669	543,827	96,158

3. Other Postemployment Benefits Funded Status

In 2019, Carlton County implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 3.D in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

**CARLTON COUNTY
CARLTON, MINNESOTA**

4. Employer Contributions to Other Postemployment Benefits

Assets have not been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75 to pay related benefits.

The following change in actuarial assumptions occurred in 2020:

- The discount rate was changed from 3.80 percent to 2.90 percent.

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

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

General Employees Retirement Plan

2020

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years two to five and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.

**CARLTON COUNTY
CARLTON, MINNESOTA**

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

General Employees Retirement Plan

2020 (Continued)

- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Employee Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality table to the Pub-2010 General/Teacher Disabled Retiree Mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100 percent Joint and Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint and Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.
- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020, through December 31, 2023, and 0.00 percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019

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

2018

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

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

General Employees Retirement Plan

2018 (Continued)

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90 percent funding to 50 percent of the Social Security cost of living adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to the Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

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

General Employees Retirement Plan

2017 (Continued)

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21 million in calendar years 2017 and 2018 and returns to \$31 million through calendar year 2031. The state's required contribution is \$16 million in PERA's fiscal years 2018 and 2019 and returns to \$6 million annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

2020

- The mortality projection scale was changed from MP-2018 to MP-2019.

2019

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

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

Public Employees Police and Fire Plan (Continued)

2018

- The mortality projection scale was changed from MP-2016 to MP-2017.
- Post-retirement benefit increases changed to 1.00 percent for all years, with no trigger.
- An end date of July 1, 2048, was added to the existing \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019, and January 1, 2020, from 16.20 percent to 16.95 and 17.70 percent of pay, respectively. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

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

Public Employees Police and Fire Plan

2017 (Continued)

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 33 percent for vested members and 2.00 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.
- The assumed termination rates were decreased to 3.00 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- The assumed percentage of married female members was decreased from 65 percent to 60 percent.
- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing joint and survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.
- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

**CARLTON COUNTY
CARLTON, MINNESOTA**

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

Public Employees Police and Fire Plan (Continued)

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Local Government Correctional Service Retirement Plan

2020

- The mortality projection scale was changed from MP-2018 to MP-2019.

2019

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

2018

- The single discount rate was changed from 5.96 percent per annum to 7.50 percent per annum.
- The mortality projection scale was changed from MP-2016 to MP-2017.
- The assumed post-retirement benefit increase was changed from 2.50 percent per year to 2.00 percent per year.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.

**CARLTON COUNTY
CARLTON, MINNESOTA**

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

Public Employees Local Government Correctional Service Retirement Plan

2018 (Continued)

- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Post-retirement benefit increases were changed from 2.50 percent per year with a provision to reduce to 1.00 percent if the funding status declines to a certain level, to 100 percent of the Social Security cost of living adjustment, not less than 1.00 percent and not more than 2.50 percent, beginning January 1, 2019. If the funding status declines to 85 percent for two consecutive years, or 80 percent for one year, the maximum increase will be lowered to 1.50 percent.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2016).
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1.00 percent for non-vested members.
- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

**CARLTON COUNTY
CARLTON, MINNESOTA**

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

Public Employees Local Government Correctional Service Retirement Plan (Continued)

2016

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

OTHER INFORMATION

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,065,435	\$ 1,065,435	\$ 1,048,232	\$ (17,203)
Intergovernmental	-	-	21,085	21,085
Total Revenues	<u>\$ 1,065,435</u>	<u>\$ 1,065,435</u>	<u>\$ 1,069,317</u>	<u>\$ 3,882</u>
Expenditures				
Debt service				
Principal	\$ 740,000	\$ 740,000	\$ 840,000	\$ (100,000)
Interest	325,435	325,435	240,476	84,959
Administrative charges	-	-	3,800	(3,800)
Total Expenditures	<u>\$ 1,065,435</u>	<u>\$ 1,065,435</u>	<u>\$ 1,084,276</u>	<u>\$ (18,841)</u>
Net Change in Fund Balance	\$ -	\$ -	\$ (14,959)	\$ (14,959)
Fund Balance – January 1	<u>2,153,266</u>	<u>2,153,266</u>	<u>2,153,266</u>	<u>-</u>
Fund Balance – December 31	<u>\$ 2,153,266</u>	<u>\$ 2,153,266</u>	<u>\$ 2,138,307</u>	<u>\$ (14,959)</u>

**CARLTON COUNTY
CARLTON, MINNESOTA**

FIDUCIARY FUNDS

Custodial funds are custodial in nature. These funds account for activity that the County holds for others in an agent capacity. The County maintains custodial funds for:

Taxes and Penalties
State Revenue
Seized Property and Forfeitures
Northeastern Waste Advisory Council
Local Collaborative

**CARLTON COUNTY
CARLTON, MINNESOTA**

**COMBINING STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS – CUSTODIAL FUNDS
DECEMBER 31, 2020**

	Taxes and Penalties	State Revenue
<u>Assets</u>		
Cash and pooled investments	\$ 421,183	\$ 142,672
Taxes receivable for state	-	23,757
Taxes receivable for other governments	581,451	-
	\$ 1,002,634	\$ 166,429
<u>Liabilities</u>		
Due to other governments	\$ 421,183	\$ 142,672
<u>Net Position</u>		
Restricted for individuals organizations, and other governments	\$ 581,451	\$ 23,757

EXHIBIT C-1

Custodial Funds			
Seized Property and Forfeitures	Northeastern Waste Advisory Council	Local Collaborative	Total Custodial Funds
\$ 1,011,656	\$ 955	\$ 458,933	\$ 2,035,399
-	-	-	23,757
-	-	-	581,451
\$ 1,011,656	\$ 955	\$ 458,933	\$ 2,640,607
\$ -	\$ 955	\$ 458,933	\$ 1,023,743
\$ 1,011,656	\$ -	\$ -	\$ 1,616,864

**CARLTON COUNTY
CARLTON, MINNESOTA**

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS – CUSTODIAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Taxes and Penalties</u>	<u>State Revenue</u>
<u>Additions</u>		
Contributions		
Other governments	\$ -	\$ -
Investment earnings		
Interest, dividends, and other	-	95
Monetary forfeitures	-	-
Property tax collections for		
State	-	3,646,001
Other governments	27,955,726	-
Fees collected for state	-	5,015,973
	<u>27,955,726</u>	<u>8,662,069</u>
Total Additions	\$ 27,955,726	\$ 8,662,069
<u>Deductions</u>		
Payments of property taxes to		
Other governments	\$ 28,078,952	\$ -
State	-	3,670,697
Payments to state	-	5,017,583
Forfeitures paid to County	-	-
Payments to other individuals/entities	-	-
	<u>28,078,952</u>	<u>8,688,280</u>
Total Deductions	\$ 28,078,952	\$ 8,688,280
Change in Net Position	\$ (123,226)	\$ (26,211)
Net Position – January 1, as restated (Note 1.E)	704,677	49,968
Net Position – December 31	\$ 581,451	\$ 23,757

EXHIBIT C-2

Custodial Funds			
Seized Property and Forfeitures	Northeastern Waste Advisory Council	Local Collaborative	Total Custodial Funds
\$ -	\$ -	\$ 294,135	\$ 294,135
-	2	-	97
4,390	-	-	4,390
-	-	-	3,646,001
-	-	-	27,955,726
-	-	-	5,015,973
\$ 4,390	\$ 2	\$ 294,135	\$ 36,916,322
\$ -	\$ -	\$ -	\$ 28,078,952
-	-	-	3,670,697
-	-	-	5,017,583
13,868	-	-	13,868
184	2	651,926	652,112
\$ 14,052	\$ 2	\$ 651,926	\$ 37,433,212
\$ (9,662)	\$ -	\$ (357,791)	\$ (516,890)
1,021,318	-	357,791	2,133,754
\$ 1,011,656	\$ -	\$ -	\$ 1,616,864

OTHER SCHEDULE

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2020**

Appropriations and Shared Revenue

State

Highway users tax	\$	6,994,047
County program aid		2,384,612
PERA rate reimbursement		75,918
Disparity reduction aid		371,707
Police aid		226,289
E-911		113,900
Aquatic invasive species aid		68,243
SCORE		103,070
Market value credit		187,485
Casino revenue aid		48,674
Out of home placement aid		286,345

Total appropriations and shared revenue **\$ 10,860,290**

Reimbursement for Services

Minnesota Department of Human Services	\$	1,955,874
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Payments

Local

Other local contributions	\$	1,893,571
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State

Payments in lieu of taxes		475,191
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Total payments **\$ 2,368,762**

Grants

State

Minnesota Department/Board of		
Public Safety	\$	74,617
Transportation		259,922
Health		269,346
Natural Resources		202,140
Human Services		2,405,893
Water and Soil Resources		140,383
Secretary of State		57,294
Veterans Affairs		10,000
Employment and Economic Development		3,150
Iron Range Resources and Rehabilitation Board		284,771

Total state **\$ 3,707,516**

**CARLTON COUNTY
CARLTON, MINNESOTA**

***EXHIBIT D-1
(Continued)***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2020**

Grants (Continued)

Federal

Department of Agriculture	\$ 626,009
Justice	64,538
Transportation	3,175,316
Treasury	4,569,126
Education	16,196
Health and Human Services	4,333,114
Homeland Security	33,717

Total federal grants **\$ 12,818,016**

Total state and federal grants **\$ 16,525,532**

Total Intergovernmental Revenue **\$ 31,710,458**



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

Independent Auditor's Report

Board of County Commissioners
Carlton County
Carlton, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carlton County, Minnesota, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 21, 2021. We have issued an adverse opinion on the governmental activities' financial statements because Carlton County has not reported capital assets in the Statement of Net Position and has not reported the related depreciation in the Statement of Activities as required by accounting principles generally accepted in the United States of America. Also, capital expenditures have not been eliminated from the Statement of Activities.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2020-003 and 2020-008 to be material weaknesses and items 2020-001, 2020-002, 2020-004, 2020-005, 2020-006, and 2020-007 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Carlton County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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

In connection with our audit, we noted that Carlton County failed to comply with the provisions of the claims and disbursements and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters as described in the Schedule of Findings and Questioned Costs as items 2020-011 and 2020-012. 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, insofar as they relate to accounting matters.

Other Matters

Included in the Schedule of Findings and Questioned Costs is a management practices comment. We believe this recommendation to be of benefit to the County, and it is reported for that purpose.

Carlton County's Response to Findings

Carlton 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/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

September 21, 2021



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

Independent Auditor's Report

Board of County Commissioners
Carlton County
Carlton, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Carlton County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2020. Carlton County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Carlton County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2020-009. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2020-009 and 2020-010, that we consider to be significant deficiencies.

Carlton County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. The 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.

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

September 21, 2021



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

Independent Auditor's Report

Board of County Commissioners
Carlton County
Carlton, Minnesota

We have audited the accompanying Schedule of Expenditures of Federal Awards (SEFA) of Carlton County, Minnesota, for the year ended December 31, 2020.

Management's Responsibility for the SEFA

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the SEFA presents fairly, in all material respects, the expenditures of federal awards of Carlton County for the year ended December 31, 2020, in accordance with accounting principles generally accepted in the United States of America.

/s/Julie Blaha

/s/Dianne Syverson

JULIE BLAHA
STATE AUDITOR

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

September 21, 2021

**CARLTON COUNTY
CARLTON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

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

The major federal programs are:

Highway Planning and Construction Cluster
Highway Planning and Construction
COVID-19 – Coronavirus Relief Fund

CFDA No. 20.205
CFDA No. 21.019

**CARLTON COUNTY
CARLTON, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020

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

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

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

INTERNAL CONTROL

Finding Number: 2020-001

Prior Year Finding Number: 2019-001

Repeat Finding Since: 2006

Computer Risk Management

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

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

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

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

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

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

View of Responsible Official: Acknowledged.

Finding Number: 2020-002

Prior Year Finding Number: 2019-002

Repeat Finding Since: 1996

Segregation of Duties

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

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

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

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

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

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

View of Responsible Official: Acknowledged

Finding Number: 2020-003

Prior Year Finding Number: 2019-003

Repeat Finding Since: 1996

Capital Assets

Criteria: GASB Statement 34 requires governments to include capital assets on the Statement of Net Position and to report depreciation expense for those assets on the Statement of Activities. In addition, capital outlay expenditures in a governmental fund's Statement of Revenues, Expenditures, and Changes in Fund Balance are eliminated in the Statement of Activities. Current GAAP also require capital assets be valued at historical cost or, if historical cost data are not available, estimated cost.

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

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

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

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

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

1. Adopt a capitalization policy that sets a minimum dollar value for an asset to be accounted for on the capital asset system. Determine the useful lives for various classes of assets to be used for depreciation purposes and the general ledger account codes to be used to record capital asset transactions.
2. Identify the information that will need to be captured by a capital asset accounting system, and establish a system that will provide the information needed to comply with the reporting requirements of GASB Statement 34.

**CARLTON COUNTY
CARLTON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

3. Inventory all capital assets, including infrastructure assets, owned by the County, and assign responsibility for each asset to a particular department head or official.
4. Assign actual or estimated historical cost to each item. Enter the information into the capital asset system.
5. Maintain the capital asset accounting system on a current basis. Procedures will need to be established on how disposals of capital assets will be identified by department heads and how the information will be transmitted to the person responsible for maintaining the capital asset system.
6. Periodically verify departmental inventory by physical inspection.

View of Responsible Official: Concur

Finding Number: 2020-004

Prior Year Finding Number: 2019-004

Repeat Finding Since: 1996

Jail Canteen Account

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

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

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

**CARLTON COUNTY
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

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

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

Recommendation: We recommend the full operations of the jail canteen fund be recorded on the County's general ledger system. This would include depositing all money received from sales and making all purchases with County warrants.

View of Responsible Official: Acknowledged

Finding Number: 2020-005

Prior Year Finding Number: 2019-005

Repeat Finding Since: 2006

Accounting Policies and Procedures Manual

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

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

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

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

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

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

View of Responsible Official: Acknowledged

Finding Number: 2020-006

Prior Year Finding Number: 2019-006

Repeat Finding Since: 2006

Journal Entries

Criteria: Carlton County limits access to the journal entry function on the Integrated Financial System (IFS) to select County employees. The ability to make journal entries on the IFS general ledger is a powerful function. It allows those employees with access to the

**CARLTON COUNTY
CARLTON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

journal entry function to make changes to the general ledger system. To prevent abuse of this function, it should be limited to those employees who have a logical need for this access. A procedure for review and approval of the journal entries made should also be in place.

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

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

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

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

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

View of Responsible Official: Acknowledged

**CARLTON COUNTY
CARLTON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

Finding Number: 2020-007

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Access to Computer Systems

Criteria: When employees leave employment with Carlton County, their access to all computer systems, networks, and data should be removed in a timely manner. Outside vendors should have their access to County systems terminated when it is no longer needed.

Condition: Access was reviewed for four employees who left employment with Carlton County during 2020. Of those tested, three individuals still had network access as of March 2021. In addition, access to the County's payroll system was reviewed, which identified a vendor's employee still had a user account in the County's system six months past when access was needed.

Context: When an employee leaves employment with Carlton County, their supervisor is responsible for filling out a separation form to notify the IT Department of the individual's end of employment. There is a backup process in place in which employee access should be terminated when the end of employment is reported by Human Resources to IT. Also, the County recently implemented a new payroll system, and the vendor's employee assisted the County in implementing that system.

Effect: When terminated employees or employees of other entities have access to Carlton County's computer systems, networks, and data, it increases the risk that malicious damage to that information, fraud, and/or misstatements may occur.

Cause: Departments were not communicating that employees were terminated to the IT Department. The vendor's employee continued to have access to the payroll system to assist the County with any problems that came up after implementation. The County did not remove this access when it was no longer needed.

**CARLTON COUNTY
CARLTON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

Recommendation: We recommend Carlton County implement additional procedures to ensure the removal of a terminated employee's network access in a timely manner. We also recommend that the County ensure that system access provided to outside vendors be terminated when it is no longer needed.

View of Responsible Official: Acknowledged

Finding Number: 2020-008

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Audit 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 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: A material audit adjustment was identified that resulted in a significant change to the County's financial statements.

Context: The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. The adjustment was found in the audit; however, independent external auditors cannot be considered part of the County's internal control.

Effect: The Human Services Special Revenue Fund required an adjustment to increase due from other governments by \$1,309,889, deferred inflows of resources – unavailable revenue by \$20,344, and intergovernmental revenue by \$1,289,545 for reimbursement of grant expenditures received after year-end for the fourth quarter of 2020. The audit adjustment was reviewed and approved by the appropriate County staff and is reflected in the financial statements.

**CARLTON COUNTY
CARLTON, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020

Cause: This activity was overlooked when financial statement information was prepared.

Recommendation: We recommend County staff implement additional procedures over financial reporting to ensure the information is complete and accurate so the County's financial statements are fairly presented in accordance with accounting principles generally accepted in the United States of America.

View of Responsible Official: Acknowledged

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

Finding Number: 2020-009

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Procurement – Uniform Guidance Written Policies and Procedures

Program: U.S. Department of Transportation's Highway Planning and Construction (CFDA No. 20.205), Award No. 1030009, 2018

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 with applicable federal law and the standards identified in this regulation.

Condition: The County has not prepared a procurement policy which reflects applicable state, local, and tribal laws and regulations and conforms with applicable federal law and the standards identified in Title 2 U.S. *Code of Federal Regulations*.

Questioned Costs: None.

**CARLTON COUNTY
CARLTON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

Context: This issue was discovered during the audit of the Highway Planning and Construction program; however, it impacts federal programs entity-wide. Written policies and procedures that reflect the specific components of federal regulations improve controls to help ensure compliance with federal award requirements.

Effect: Written policies and procedures that do not reflect specific Uniform Guidance procurement requirements could increase the risk of noncompliance with federal program requirements.

Cause: The County had not prepared a policy incorporating Uniform Guidance procurement requirements prior to year-end.

Recommendation: We recommend the County develop and implement written policies and procedures that can be consistently applied by all staff which, when followed, ensures compliance with Uniform Guidance procurement requirements.

View of Responsible Official: Acknowledged

Finding Number: 2020-010

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Allowable Costs/Cost Principles

Program: U.S. Department of the Treasury's COVID-19 – Coronavirus Relief Fund (CFDA No. 21.019), Award No. SLT0016, 2020.

Pass-Through Agency: Minnesota Management and Budget

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

Condition: In a sample of 34 payroll claims paid, two time sheets lacked electronic attestations by the employees as to the hours they worked.

Questioned Costs: None.

Context: The County utilizes an electronic timekeeping system to record employee hours and obtain approvals from the employee and assigned supervisor for those hours. The time sheets were signed off electronically by the employees' supervisors but not by the employees themselves.

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

Effect: Without documented employee attestations of time worked, there is less assurance that time report is accurate.

Cause: In the County's payroll system, once a supervisor approves the time sheet, the employee is unable to go back and add their attestation in the system.

Recommendation: We recommend the County obtain and maintain employee attestations for all hours claimed.

View of Responsible Official: Acknowledged

**CARLTON COUNTY
CARLTON, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

Finding Number: 2020-011

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Publication of Board Minutes

Criteria: Minnesota Statutes section 375.12 requires the County to publish all Board meeting minutes in the official newspaper of the County as designated by the County Board. These publications should be done within 30 days of the meeting.

Condition: We reviewed the affidavits of publication related to the publishing of a summary of County Board minutes for 2020 and found of the 26 published summaries reviewed, 18 were not published in the County's official newspaper within the 30-day requirement.

Context: County Board meetings are held twice a month, with two weeks in between meetings. Meeting minutes are approved by the County Board at subsequent meetings.

Effect: Noncompliance with Minn. Stat. § 375.12.

Cause: The County informed us that the newspaper has a publishing deadline that does not always coincide with the date the Board approves the minutes of the past meeting.

Recommendation: We recommend the County publish its summaries of the County Board minutes in compliance with Minn. Stat. § 375.12.

View of Responsible Official: Acknowledged

**CARLTON COUNTY
CARLTON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

Finding Number: 2020-012

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Prompt Payment of Invoices

Criteria: As stated in Minn. Stat. § 471.425, the County is required to make payment on vendor invoices according to the terms of the contract, or within 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later. For bills paid after the time period set by contract or standard payment period, the government entity must calculate and pay interest as required.

Condition: Two of 25 invoices tested for compliance with this statute were not paid within the required 35 days.

Context: Payments not made timely could be an indicator of other issues, such as poor procedural controls, poor internal controls, or cash flow problems.

Effect: Making payment on invoices after 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later, or not making payment in accordance with the terms of the contract, is in noncompliance with Minnesota law if interest is not calculated and paid.

Cause: The County informed us that the payment delay of these invoices was likely due to staff working from home as a result of the COVID-19 pandemic or staff were less available to approve invoices due to increased job duties.

Recommendation: We recommend the County develop a process to ensure payments are made in accordance with Minn. Stat. § 471.425.

View of Responsible Official: Acknowledged

**CARLTON COUNTY
CARLTON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

B. MANAGEMENT PRACTICES

Finding Number: 2020-013

Prior Year Finding Number: 2019-007

Repeat Finding Since: 1996

Disaster Recovery Plan

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

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

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

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

Cause: The plan has not been updated since 1993.

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

View of Responsible Official: Acknowledged



Carlton County Auditor/Treasurer

Kevin DeVriendt
Auditor/Treasurer
Kelly Lampel
Chief Deputy Auditor/Treasurer

Auditor
P.O. Box 130
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REPRESENTATION OF CARLTON COUNTY CARLTON, MINNESOTA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2020

Finding Number: 2020-001
Finding Title: Computer Risk Management

Name of Contact Person Responsible for Corrective Action:

Kevin DeVriendt – County Auditor-Treasurer
(In conjunction with IT office staff)

Corrective Action Planned:

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

Anticipated Completion Date:

December 31, 2021

Finding Number: 2020-002
Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action:

Kevin DeVriendt – County Auditor-Treasurer

Corrective Action Planned:

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

Anticipated Completion Date:

September 30, 2021 and ongoing

Finding Number: 2020-003

Finding Title: Capital Assets

Name of Contact Person Responsible for Corrective Action:

Kevin DeVriendt – County Auditor-Treasurer

Corrective Action Planned:

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

Anticipated Completion Date:

December 31, 2021

Finding Number: 2020-004

Finding Title: Jail Canteen Account

Name of Contact Person Responsible for Corrective Action:

Kevin DeVriendt – County Auditor-Treasurer

Corrective Action Planned:

The County Auditor-Treasurer staff, in conjunction with County Sheriff-Jail Division staff, are working to resolve this issue. The County has opened a new bank account for this account, and it is now being reconciled by Auditor-Treasurer office staff; it is hoped that this issue can be resolved in the near future.

Anticipated Completion Date:

December 31, 2021

Finding Number: 2020-005

Finding Title: Accounting Policies and Procedures Manual

Name of Contact Person Responsible for Corrective Action:

Kevin DeVriendt – County Auditor-Treasurer

Corrective Action Planned:

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

Anticipated Completion Date:

December 31, 2021

Finding Number: 2020-006

Finding Title: Journal Entries

Name of Contact Person Responsible for Corrective Action:

Kevin DeVriendt – County Auditor-Treasurer

Corrective Action Planned:

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

Anticipated Completion Date:

December 31, 2021

Finding Number: 2020-007
Finding Title: Access to Computer Systems

Name of Contact Person Responsible for Corrective Action:

Kevin DeVriendt – County Auditor-Treasurer
(In conjunction with IT Office staff)

Corrective Action Planned:

The Information Technology department of the County will establish procedures to help ensure that when an employee terminates employment from the County, they are notified. Upon this notification, the terminated employee will have their network access removed in a timely manner. This will also apply to any outside vendors that have been provided access to the County's system.

Anticipated Completion Date:

September 30, 2021

Finding Number: 2020-008
Finding Title: Audit Adjustment

Name of Contact Person Responsible for Corrective Action:

Kevin DeVriendt – County Auditor-Treasurer

Corrective Action Planned:

The County Auditor-Treasurer's staff and fiscal supervisors from other departments will review their trial balances, journal entries, and financial statement presentation in detail to help ensure their accuracy, and detect any significant errors for correction.

Anticipated Completion Date:

December 31, 2021

Finding Number: 2020-009
Finding Title: Procurement – Uniform Guidance Written Policies and Procedures

Name of Contact Person Responsible for Corrective Action:

Kevin DeVriendt – County Auditor-Treasurer

Corrective Action Planned:

Since year end, the County has developed and adopted a new procurement policy that is in compliance with the Uniform Guidance procurement requirements.

Anticipated Completion Date:

Completed March 9, 2021

Finding Number: 2020-010

Finding Title: Allowable Costs/Cost Principles

Name of Contact Person Responsible for Corrective Action:

Kevin DeVriendt – County Auditor-Treasurer

Corrective Action Planned:

County supervisors and payroll personnel will watch to see that timesheets have approvals by both the employee and the employee's supervisor. If events do not allow both approvals to be present, documentation will be maintained as to why and the alternate approval obtained.

Anticipated Completion Date:

September 30, 2021

Finding Number: 2020-011

Finding Title: Publication of Board Minutes

Name of Contact Person Responsible for Corrective Action:

Kevin DeVriendt – County Auditor-Treasurer

Corrective Action Planned:

The County Auditor-Treasurer staff will adjust their procedures to help streamline the process of getting the board minutes prepared, approved, and submitted to the newspaper to be published within the timelines set under Minnesota Statutes.

Anticipated Completion Date:

September 30, 2021

Finding Number: 2020-012
Finding Title: Prompt Payment of Invoices

Name of Contact Person Responsible for Corrective Action:

Kevin DeVriendt – County Auditor-Treasurer

Corrective Action Planned:

County staff working with the processing of invoices will be reminded of the requirements, and will be more vigilant in this process to help ensure that payments to vendors are being made promptly in accordance with the applicable Minnesota Statutes.

Anticipated Completion Date:

September 30, 2021

Finding Number: 2020-013
Finding Title: Disaster Recovery Plan

Name of Contact Person Responsible for Corrective Action:

Kevin DeVriendt – County Auditor-Treasurer
(In conjunction with the IT Office staff)

Corrective Action Planned:

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

Anticipated Completion Date:

December 31, 2021



Carlton County Auditor/Treasurer

Kevin DeVriendt
Auditor/Treasurer
Kelly Lampel
Chief Deputy Auditor/Treasurer

Auditor
P.O. Box 130
Carlton, MN 55718
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REPRESENTATION OF CARLTON COUNTY CARLTON, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2020

Finding Number: 2019-001
Repeat Finding Since: 2006
Finding Title: Computer Risk Management

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

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

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

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2019-002
Repeat Finding Since: 1996
Finding Title: Segregation of Duties

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

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

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

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2019-003
Repeat Finding Since: 1996
Finding Title: Capital Assets

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

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

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

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2019-004
Repeat Finding Since: 1996
Finding Title: Jail Canteen Account

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

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

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

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2019-005

Repeat Finding Since: 2006

Finding Title: Accounting Policies and Procedures Manual

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

Summary of Corrective Action Previously Reported: A 'draft' of the manual has been prepared and is currently being reviewed by the Carlton County Policy Committee.

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

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2019-006

Repeat Finding Since: 2006

Finding Title: Journal Entries

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

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

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

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X

Finding Number: 2019-007

Repeat Finding Since: 1996

Finding Title: Disaster Recovery Plan

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

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

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

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	202MN004W1003	\$ 128,409	\$ -
Passed Through Minnesota Department of Human Services SNAP Cluster State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	202MN101S2514	497,600	-
Total U.S. Department of Agriculture			\$ 626,009	\$ -
U.S. Department of Justice				
Passed Through Minnesota Department of Public Safety Crime Victim Assistance	16.575	F-CVS-2020-CARLTNAO	\$ 64,538	\$ -
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation Airport Improvement Program	20.106	A0902-58	\$ 960,124	\$ -
Airport Improvement Program	20.106	A0902-61	259,429	-
COVID-19 – Airport Improvement Program (Total Airport Improvement Program 20.106 \$1,279,553)	20.106	A0902-C1	60,000	-
Highway Planning and Construction Cluster Highway Planning and Construction	20.205	1030009	1,848,332	-
Passed Through Northeast Minnesota Emergency Communications Board E-911 Grant Program	20.615	A-DECN-CPE-2019-NEECB2-2	42,397	-
Total U.S. Department of Transportation			\$ 3,170,282	\$ -
U.S. Department of the Treasury				
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board COVID-19 – Coronavirus Relief Fund (Total Coronavirus Relief Fund 21.019 \$4,569,126)	21.019	SLT0016	\$ 18,888	\$ -
Passed Through Minnesota Management and Budget COVID-19 – Coronavirus Relief Fund (Total Coronavirus Relief Fund 21.019 \$4,569,126)	21.019	SLT0016	4,550,238	118,096
Total U.S. Department of the Treasury			\$ 4,569,126	\$ 118,096
U.S. Department of Education				
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board Special Education – Grants for Infants and Families	84.181	B04MC32551	\$ 2,429	\$ -

**CARLTON COUNTY
CARLTON, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Education (Continued)				
Passed Through Minnesota Department of Employment and Economic Development Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	Not available	13,767	-
Total U.S. Department of Education			\$ 16,196	\$ -
U.S. Department of Health and Human Services				
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board				
Public Health Emergency Preparedness	93.069	NU90TP922026	\$ 19,769	\$ -
Early Hearing Detection and Intervention	93.251	H61MC00035	450	-
Immunization Cooperative Agreements	93.268	6 NH23IP000737-05-02	3,326	-
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	93.314	6 NUR3DD000842-05-01	300	-
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$325,873)	93.558	1801MNTANF	31,488	-
Medicaid Cluster				
Medical Assistance Program (Total Medical Assistance Program 93.778 \$2,071,900)	93.778	2005MN5ADM	42,690	-
Maternal, Infant, and Early Childhood Home Visiting Grant	93.870	X10MC29483	108,827	-
Maternal and Child Health Services Block Grant to the States	93.994	B04MC32551	36,267	-
Passed Through Minnesota Department of Human Services				
Guardianship Assistance	93.090	2001MNGARD	8,220	-
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	H79SM080155	142,248	-
Promoting Safe and Stable Families	93.556	2001MNF PSS	37,231	-
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$325,873)	93.558	2001MNTANF	294,385	-
Child Support Enforcement	93.563	2001MNCEST	85,762	-
Child Support Enforcement (Total Child Support Enforcement 93.563 \$1,015,296)	93.563	2001MNCSES	929,534	-
Refugee and Entrant Assistance – State Administered Programs	93.566	2001MNR CMA	728	-
Community-Based Child Abuse Prevention Grants	93.590	1901MNBCAP	18,286	-
CCDF Cluster				
Child Care and Development Block Grant	93.575	2001MNCCDF	10,414	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	2001MNCWSS	9,983	-
Foster Care – Title IV-E	93.658	2001MNFOST	218,927	-
Adoption Assistance	93.659	2001MNA DPT	49,747	-
Social Services Block Grant	93.667	2001MNSOSR	270,379	-
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674	2001MNCILP	451	-
Children's Health Insurance Program	93.767	2005MN5021	1,248	-
Medicaid Cluster				
Medical Assistance Program	93.778	2005MN5MAP	23,334	-
Medical Assistance Program (Total Medical Assistance Program 93.778 \$2,071,900)	93.778	2005MN5ADM	2,005,876	-
Total U.S. Department of Health and Human Services			\$ 4,349,870	\$ -

**CARLTON COUNTY
CARLTON, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	3319FAS190127	\$ 4,500	\$ -
Passed Through Minnesota Department of Public Safety Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	DR-4390	5,502	-
Emergency Management Performance Grants	97.042	F-EMPG-2019-CARLTNCO	23,715	-
Total U.S. Department of Homeland Security			\$ 33,717	\$ -
Total Federal Awards			\$ 12,829,738	\$ 118,096
Totals by Cluster				
Total expenditures for SNAP Cluster			\$ 497,600	
Total expenditures for Highway Planning and Construction Cluster			1,848,332	
Total expenditures for Medicaid Cluster			2,071,900	
Total expenditures for CCDF Cluster			10,414	

**CARLTON COUNTY
CARLTON, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020

1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Carlton County under programs of the federal government for the year ended December 31, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Carlton County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Carlton County.

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

2. De Minimis Cost Rate

Carlton County has elected to not use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Reconciliation to Schedule of Intergovernmental Revenue

	Federal CFDA Number	Amount
Federal grant revenue per Schedule of Intergovernmental Revenue		\$ 12,818,016
Grants received more than 90 days after year-end, unavailable in 2020		
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	238,917
Highway Planning and Construction	20.205	189,490
Adoption Assistance	93.659	12,356
Promoting Safe and Stable Families	93.556	3,254
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1,145
Grants unavailable in 2019, recognized as revenue in 2020		
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	(238,917)
Airport Improvement Project	20.106	(194,526)
Differences between expenditures and related reimbursements		3
Total Expenditures per Schedule of Expenditures of Federal Awards		\$ 12,829,738