STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

CARLTON COUNTY
CARLTON, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 700 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, 2015

Audit Practice Division
Office of the State Auditor
State of Minnesota

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CARLTON COUNTY
CARLTON, MINNESOTA

TABLE OF CONTENTS

CARLTON COUNTY
CARLTON, MINNESOTA

TABLE OF CONTENTS

Introductory Section

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CARLTON COUNTY
CARLTON, MINNESOTA

ORGANIZATION
AS OF DECEMBER 31, 2015

			Term Expires
Elected			
Commissioners			
Board Member	Dick Brenner	District 1	January 2017
Board Chair	Marv Bodie	District 2	January 2019
Board Member	Thomas Proulx	District 3	January 2017
Board Member	Susan Zmyslony	District 4	January 2019
Board Member	Gary Peterson	District 5	January 2017
Attorney	Thomas H. Pertler		January 2019
Auditor/Treasurer	Paul Gassert		January 2019
Sheriff	Kelly Lake		January 2019
Appointed			
Assessor	Marci Moreland		January 2017
Recorder	Kristine Basilici		January 2019
Registrar of Titles	Kristine Basilici		January 2019
Highway Engineer	Mike Tardy		March 2017
Veteran Services Officer	Duane Brownie		January 2017
Surveyor	William Hayden		December 2015
County Coordinator	Dennis Genereau		Indefinite

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Financial Section

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Carlton County
Carlton, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carlton County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we 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 expenses of the governmental activities. The amount by which this departure affects the assets, net position, and expenses of the governmental activities is not reasonably determinable.

Also, as discussed in Note 1.D.9. to the financial statements, Carlton County has not reported its other postemployment benefits (OPEB) liability in the governmental activities and, accordingly, has not reported an expense for the current period change in the net OPEB obligation. Accounting principles generally accepted in the United States of America require that OPEB obligations, which arise from an exchange of salaries and benefits for employee services and are part of the compensation that employers offer for services received, and the annual OPEB costs be accrued as liabilities and expenses as the employees earn the right to benefits. Accruing OPEB costs would increase liabilities, reduce net position, and change the expenses of the governmental activities. The amount by which this departure affects the liabilities, 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, 2015, or the changes in financial position thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions
In our opinion, the financial statements present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Carlton County as of December 31, 2015, and respective changes in financial position thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

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

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 November 22, 2016, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Carlton County's internal control over financial reporting and compliance.

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

November 22, 2016

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(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, 2015. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is $11,165,878, of which $12,081,584 is restricted for specific purposes. (See Note 1.E. to the Carlton County Financial Statements - Change in Accounting Principles).

- Carlton County's governmental activities' net position increased by $935,305 for the year ended December 31, 2015.

- The net cost of governmental activities was $26,983,180 for the current fiscal year. The net cost was funded by general revenues totaling $27,918,485.

- Governmental funds' fund balances increased by $745,840.

- Carlton County has not established capital asset records or recorded the related depreciation as required by Governmental Accounting Standards Board (GASB) Statement 34. Carlton County also has not determined the net other postemployment benefits liability as required by GASB Statement 45.

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 these 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 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 and liabilities--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)

	2015	2014
Assets	$ 45,475	$ 44,633
Deferred Outflows of Resources		
Deferred pension outflows	$ 2,351	$ -
Liabilities		
Long-term liabilities outstanding	$ 30,147	$ 15,957
Other liabilities	4,650	4,554
Total Liabilities	$ 34,797	$ 20,511
Deferred Inflows of Resources		
Deferred pension inflows	$ 1,863	$ -

	2015	2014
Net Position		
Restricted	$ 12,082	$ 12,917
Unrestricted	(916)	11,205
Total Net Position, as reported	$ 11,166	$ 24,122
Change in accounting principles*		(13,891)
Total Net Position, as restated		$ 10,231

*See Note 1.E. to the Carlton County financial statements - Change in Accounting Principles.

Table 2
Changes in Net Position
(in Thousands)

	2015	2014 (Restated)
Revenues		
Program revenues		
Fees, charges, fines, and other	$ 6,450	$ 6,336
Operating grants and contributions	17,443	18,303
Capital grants and contributions	483	892
General revenues		
Property taxes	23,256	22,211
Other taxes	1,499	525
Grants and contributions	2,920	2,611
Other general revenues	243	281
Total Revenues	$ 52,294	$ 51,159
Expenses		
Program expenses		
General government	$ 7,181	$ 7,180
Public safety	8,300	8,376
Culture and recreation	485	482
Highways and streets	14,194	10,392
Human services	15,565	14,328
Health	1,811	2,279
Sanitation	1,418	1,336
Conservation of natural resources	1,302	1,327
Economic development	599	1,679
Interest	504	544
Total Expenses	$ 51,359	$ 47,923
Increase (Decrease) in Net Position	$ 935	$ 3,236
Net Position, January 1, as restated*	10,231	6,995
Net Position, December 31	$ 11,166	$ 10,231

*See Note1.E. to the Carlton County financial statements - Change in Accounting Principles.

Governmental Activities

The cost of all governmental activities this year was $51,359,301. However, as shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through County taxes was only $23,259,292, because some of the cost was paid by those who directly benefited from the programs ($6,450,032) or by other governments and organizations that subsidized certain programs with grants and contributions ($17,926,089).

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	
	2015	2014	2015	2014
General government	$ 7,181	$ 7,180	$ 5,373	$ 4,622
Public safety	8,300	8,376	7,593	7,199
Highways and streets	14,194	10,392	6,338	1,905
Human services	15,565	14,328	6,137	5,627
Health	1,811	2,279	561	344
All others	4,308	5,368	981	2,695
Totals	$ 51,359	$ 47,923	$ 26,983	$ 22,392

THE COUNTY'S FUNDS

As the County completed the year, its governmental funds reported a combined fund balance of $33,218,805, which is more than last year's total of $32,472,965. Included in this year's total fund balance is a surplus of $18,189,078 in the County's General Fund. The overall increase in the governmental funds was primarily due to an increase in restricted funds in the Road and Bridge and the Human Services Special Revenue Funds.

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) for the County's General Fund were under the final budget by $684,913. The largest variance was in economic development.

On the other hand, resources available for appropriation exceeded the final budget for the County's General Fund by $1,395,869. Collections were greater than expected in intergovernmental revenues, charges for services, and miscellaneous revenues and less than expected for real estate taxes.

Fund balance was not anticipated to materially change for the year. Actual fund balance increased by $1,939,502, due mostly to both excess revenues and expenditures under budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015, 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 $12,230,000 outstanding in general obligation bonds backed by the County, versus $12,950,000 last year.

The County did not issue bonds in 2015. 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 2016 budget and tax levy:

- anticipated increase of $350,000 for the implementation of the salary study,
- anticipated reduction of $200,000 for the Community Corrections Agreement,
- increase of $235,000 for various new staff,
- increase of $100,000 for County Program Aid funding,
- increase of $550,000 for the Human Services programs, and
- increase of 3.48 percent for property tax levies in 2016.

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 County Auditor/Treasurer, Paul G. Gassert, Carlton County Courthouse, 301 Walnut Avenue, Carlton, Minnesota 55718.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
DECEMBER 31, 2015

	Primary Government Governmental Activities
Assets	
Cash and pooled investments	$ 29,268,703
Receivables	14,501,770
Inventories	655,401
Prepaid items	1,049,184
Total Assets	**$ 45,475,058**
Deferred Outflows of Resources	
Deferred pension outflows	**$ 2,351,140**
Liabilities	
Accounts payable and other current liabilities	$ 3,419,996
Accrued interest payable	207,511
Unearned revenue	1,022,605
Long-term liabilities	
Due within one year	735,000
Due in more than one year	14,685,953
Net pension liability	14,725,950
Total Liabilities	**$ 34,797,015**
Deferred Inflows of Resources	
Deferred pension inflows	**$ 1,863,305**
Net Position	
Restricted for	
General government	$ 704,606
Public safety	118,522
Highways and streets	4,708,463
Conservation of natural resources	369,764
Sanitation	29,280
Economic development	4,285,826
Debt service	1,865,123
Unrestricted	(915,706)
Total Net Position	**$ 11,165,878**

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

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Expenses	Program Revenues: Fees, Charges, Fines, and Other	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Functions/Programs					
Governmental activities					
General government	$ 7,181,477	$ 1,808,754	$ -	$ -	$ (5,372,723)
Public safety	8,300,271	287,878	419,871	-	(7,592,522)
Highways and streets	14,194,033	818,909	6,679,557	357,212	(6,338,355)
Sanitation	1,417,689	946,600	28,778	-	(442,311)
Human services	15,565,426	1,312,188	8,115,933	-	(6,137,305)
Health	1,810,593	239,568	1,010,164	-	(560,861)
Culture and recreation	484,729	41	10,000	-	(474,688)
Conservation of natural resources	1,301,628	909,325	531,457	-	139,154
Economic development	599,408	126,769	647,482	125,635	300,478
Interest	504,047	-	-	-	(504,047)
Total Governmental Activities	**$ 51,359,301**	**$ 6,450,032**	**$ 17,443,242**	**$ 482,847**	**$ (26,983,180)**

General Revenues	
Property taxes	$ 23,256,292
Mortgage registry and deed tax	25,263
Transportation sales tax	1,073,868
Payments in lieu of tax	399,979
Grants and contributions not restricted to specific programs	2,920,458
Unrestricted investment earnings	107,811
Miscellaneous	134,814
Total general revenues	**$ 27,918,485**
Change in net position	**$ 935,305**
Net Position - Beginning, as restated (Note 1.E.)	**10,230,573**
Net Position - Ending	**$ 11,165,878**

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

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

CARLTON COUNTY
CARLTON, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General	Road and Bridge
Assets		
Cash and pooled investments	$ 14,474,142	$ 2,387,548
Petty cash and change funds	1,900	-
Taxes receivable		
Delinquent	539,867	121,997
Special assessments receivable		
Delinquent	42,094	-
Accounts receivable	122,164	-
Accrued interest receivable	59,815	-
Due from other funds	145,776	16,127
Due from other governments	428,078	7,548,216
Inventories	-	655,401
Prepaid items	1,049,184	-
Loans receivable	3,001,406	-
Total Assets	**$ 19,864,426**	**$ 10,729,289**
Liabilities, Deferred Inflows of Resources, and Fund Balances		
Liabilities		
Accounts payable	$ 283,913	$ 62,901
Salaries payable	491,271	147,223
Contracts payable	-	491,062
Due to other funds	7,819	-
Due to other governments	88,356	187,943
Unearned revenue	51,409	942,589
Total Liabilities	**$ 922,768**	**$ 1,831,718**
Deferred Inflows of Resources		
Unavailable revenue		
Taxes	$ 500,760	$ 107,522
Grants	251,820	5,988,677
Long-term receivables	-	-
Total Deferred Inflows of Resources	**$ 752,580**	**$ 6,096,199**

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

EXHIBIT 3

Human Services	Debt Service	Forfeited Tax Nonmajor Fund	Total
$ 10,319,180	$ 1,858,790	$ 223,166	$ 29,262,826
3,977	-	-	5,877
301,460	54,767	-	1,018,091
-	-	-	42,094
69,021	-	777,679	968,864
-	-	-	59,815
-	-	-	161,903
1,435,206	-	-	9,411,500
-	-	-	655,401
-	-	-	1,049,184
-	-	-	3,001,406
$ 12,128,844	**$ 1,913,557**	**$ 1,000,845**	**$ 45,636,961**
$ 622,715	$ -	$ 37,186	$ 1,006,715
440,829	-	10,919	1,090,242
-	-	-	491,062
-	-	154,084	161,903
534,601	-	21,077	831,977
28,607	-	-	1,022,605
$ 1,626,752	**$ -**	**$ 223,266**	**$ 4,604,504**
$ 269,931	$ 48,434	$ -	$ 926,647
-	-	-	6,240,497
-	-	646,508	646,508
$ 269,931	**$ 48,434**	**$ 646,508**	**$ 7,813,652**

CARLTON COUNTY
CARLTON, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General	Road and Bridge
Liabilities, Deferred Inflows of Resources, and Fund Balances (Continued)		
Fund Balances		
Nonspendable		
Inventories	$ -	$ 655,401
Prepaid items	1,049,184	-
Long-term loans	3,001,406	-
Missing heirs	23,265	-
Restricted		
Restricted for E-911	47,223	-
Debt service	-	-
Law library	106,146	-
Recorder's technology equipment	272,362	-
Recorder's compliance	220,776	-
Prosecutorial purposes	82,058	-
Administering the carrying of weapons	61,324	-
Law enforcement	9,974	-
Timber development	369,764	-
Economic development	1,313,700	-
Highways and streets	-	531,019
Town roads	-	31,559
Transportation sales tax	-	518,203
Assigned		
Highways and streets	-	1,065,190
Human services	-	-
Health	-	-
Forfeited tax	-	-
Unassigned	11,631,896	-
Total Fund Balances	**$ 18,189,078**	**$ 2,801,372**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 19,864,426**	**$ 10,729,289**

Human Services	Debt Service	Forfeited Tax Nonmajor Fund	Total
$ -	$ -	$ -	$ 655,401
-	-	-	1,049,184
-	-	-	3,001,406
-	-	-	23,265
-	-	-	47,223
-	1,865,123	-	1,865,123
-	-	-	106,146
-	-	-	272,362
-	-	-	220,776
-	-	-	82,058
-	-	-	61,324
-	-	-	9,974
-	-	-	369,764
-	-	-	1,313,700
-	-	-	531,019
-	-	-	31,559
-	-	-	518,203
-	-	-	1,065,190
7,334,197	-	-	7,334,197
2,897,964	-	-	2,897,964
-	-	131,071	131,071
-	-	-	11,631,896
$ 10,232,161	**$ 1,865,123**	**$ 131,071**	**$ 33,218,805**
$ 12,128,844	**$ 1,913,557**	**$ 1,000,845**	**$ 45,636,961**

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CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT 4

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

Fund balance - total governmental funds (Exhibit 3)		**$ 33,218,805**
Amounts reported for governmental activities in the statement of net position are different because:		
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		7,813,652
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.		
Deferred pension outflows	$ 2,351,140	
Deferred pension inflows	(1,863,305)	487,835
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	$ (12,230,000)	
Bond discount	35,080	
Accrued interest payable	(207,511)	
Compensated absences	(3,226,033)	
Net pension liability	(14,725,950)	(30,354,414)
Net Position of Governmental Activities (Exhibit 1)		**$ 11,165,878**

-

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

CARLTON COUNTY
CARLTON, MINNESOTA

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

	General	Road and Bridge
Revenues		
Taxes	$ 12,745,612	$ 3,740,712
Special assessments	538,022	-
Licenses and permits	80,159	-
Intergovernmental	3,955,348	7,308,216
Charges for services	2,252,223	403,161
Fines and forfeits	55,979	-
Gifts and contributions	40,043	-
Investment earnings	106,023	1,788
Miscellaneous	641,785	415,748
Total Revenues	**$ 20,415,194**	**$ 11,869,625**
Expenditures		
Current		
General government	$ 7,063,365	$ -
Public safety	8,150,782	-
Highways and streets	-	13,997,528
Sanitation	1,415,533	-
Human services	-	-
Health	-	-
Culture and recreation	484,169	-
Conservation of natural resources	805,215	-
Economic development	599,408	-
Debt service		
Principal	-	-
Interest	-	-
Administrative charges	-	-
Total Expenditures	**$ 18,518,472**	**$ 13,997,528**
Excess of Revenues Over (Under) Expenditures	**$ 1,896,722**	**$ (2,127,903)**
Other Financing Sources (Uses)		
Transfers in	$ 55,776	$ -
Transfers out	(12,996)	-
Total Other Financing Sources (Uses)	**$ 42,780**	**$ -**
Net Change in Fund Balance	**$ 1,939,502**	**$ (2,127,903)**
Fund Balance - January 1	**16,249,576**	**5,061,243**
Increase (decrease) in inventories	**-**	**(131,968)**
Fund Balance - December 31	**$ 18,189,078**	**$ 2,801,372**

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

	Human Services	Debt Service	Forfeited Tax Nonmajor Fund	Total
	$ 6,854,815	$ 1,115,991	$ -	$ 24,457,130
	-	-	-	538,022
	-	-	-	80,159
	9,693,989	202,060	-	21,159,613
	1,149,989	-	-	3,805,373
	-	-	-	55,979
	-	-	-	40,043
	-	-	-	107,811
	401,767	-	578,008	2,037,308
	$ 18,100,560	**$ 1,318,051**	**$ 578,008**	**$ 52,281,438**
	$ -	$ -	$ -	$ 7,063,365
	-	-	-	8,150,782
	-	-	-	13,997,528
	-	-	-	1,415,533
	15,387,507	-	-	15,387,507
	1,790,538	-	-	1,790,538
	-	-	-	484,169
	-	-	484,839	1,290,054
	-	-	-	599,408
	-	720,000	-	720,000
	-	501,846	-	501,846
	-	2,900	-	2,900
	$ 17,178,045	**$ 1,224,746**	**$ 484,839**	**$ 51,403,630**
	$ 922,515	**$ 93,305**	**$ 93,169**	**$ 877,808**
	$ 12,996	$ -	$ -	$ 68,772
	-	-	(55,776)	(68,772)
	$ 12,996	**$ -**	**$ (55,776)**	**$ -**
	$ 935,511	**$ 93,305**	**$ 37,393**	**$ 877,808**
	9,296,650	**1,771,818**	**93,678**	**32,472,965**
	-	**-**	**-**	**(131,968)**
	$ 10,232,161	**$ 1,865,123**	**$ 131,071**	**$ 33,218,805**

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, 2015

Net change in fund balance - total governmental funds (Exhibit 5)		**$ 877,808**
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	$ 7,813,652	
Unavailable revenue - January 1	(7,816,684)	(3,032)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal repayments		
General obligation bonds		720,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in accrued interest payable	$ 3,183	
Change in compensated absences	(181,574)	
Amortization of bond discounts	(2,484)	
Change in inventories	(131,968)	
Change in net pension liability, as restated	(166,243)	
Change in deferred pension outflows, as restated	1,682,920	
Change in deferred pension inflows	(1,863,305)	(659,471)
Change in Net Position of Governmental Activities (Exhibit 2)		**$ 935,305**

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

FIDUCIARY FUNDS

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CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2015

		Agency Funds
Assets		
Cash and pooled investments	**$**	**2,330,595**
Liabilities		
Accounts payable	$	82,104
Salaries payable		2,199
Due to other governments		2,246,292
Total Liabilities	**$**	**2,330,595**

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2015. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

Carlton County has not included capital assets or infrastructure, such as roads and bridges, in the government-wide financial statements as required by GASB Statement 34. Also, the County has not determined what its other postemployment benefits (OPEB) liability might be in order to include the liability in the government-wide financial statements as required by GASB Statement 45. These departures from GAAP are discussed in Notes 1.D.4. and 1.D.9. to the financial statements.

A. Financial Reporting Entity

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

Joint Ventures

The County participates in several joint ventures described in Note 6.D.

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

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

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 from business-type activities, which rely to a significant extent on fees and charges to external parties for support. Carlton County has no business-type activities.

In the government-wide statement of net position, the governmental activities are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations, except that Carlton County does not report capital assets and OPEB liability, as discussed in Notes 1.D.4. and 1.D.9.

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

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

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements (Continued)

      2. Fund Financial Statements

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

         The County reports the following major governmental funds:

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

         - 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 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.

         Additionally, the County reports the following fiduciary fund type:

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

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. 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 general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at fair value at December 31, 2015, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2015 were $107,811.

1. Summary of Significant Accounting Policies

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

1. Deposits and Investments (Continued)

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.

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.

1. Summary of Significant Accounting Policies

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

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 estimated fair value at the date of donation. The assets are to be depreciated at the government-wide financial statement level.

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 generally accepted accounting principles.

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.

1. Summary of Significant Accounting Policies

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

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 usage of fund balances within the General Fund and Road and Bridge, Public Health and Human Services, and Forfeited Tax Sale 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.

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. Currently, the County has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows arise only under the accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date and also the differences between projected and actual earnings on pension plan investments 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

1. Summary of Significant Accounting Policies

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

7. Deferred Outflows/Inflows of Resources (Continued)

resources until that time. The County has two types of items, unavailable revenue and deferred pension inflows, that qualify for reporting in this category. Unavailable revenue arises only under the modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts became available. Deferred pension inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and pension plan changes in proportionate share 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. The pension liability is liquidated through the use of existing fund balance available through the General Fund and other governmental funds that have personal services.

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. Bond issuance costs are recognized as an expense in the period incurred.

1. Summary of Significant Accounting Policies

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

      9. Long-Term Obligations (Continued)

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

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

      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.

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 the 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 actions (resolution) it employed to previously commit these 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 and 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.

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)

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

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

1. Summary of Significant Accounting Policies

E. Change in Accounting Principles (Continued)

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

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

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

	Governmental Activities
Net Position, January 1, 2015, as previously reported	$ 24,122,060
Change in accounting principles	(13,891,487)
Net Position, January 1, 2015, as restated	$ 10,230,573

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations

For the year ended December 31, 2015, expenditures exceeded appropriations in the nonmajor Forfeited Tax Special Revenue Fund:

	Final Budget	Expenditures	Excess
Forfeited Tax Special Revenue Fund	$ 407,509	$ 484,839	$ 77,330

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position		
Governmental activities		
Cash and pooled investments	$	29,268,703
Statement of fiduciary net position		
Cash and pooled investments		2,330,595
Total Cash and Investments	$	31,599,298

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a policy on custodial credit risk for deposits. As of December 31, 2015, the County's deposits were not exposed to custodial credit risk.

3. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments (Continued)

         b. Investments

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

(1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(4) bankers' acceptances of United States banks;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

(6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. It is the County's policy to not incur unreasonable risk in order to gain investment income. The County's goal is to maximize income, to preserve principal, and to maintain liquidity to meet the County's need for cash and timely payment of bills.

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy on custodial credit risk for investments. As of December 31, 2015, 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.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Over 5 Percent of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
U.S. government agency securities					
Federal Home Loan Mortgage Corporation Note	Aaa/AA+	Moody's/S&P	<5%	07/28/2017	$ 249,028
Federal Home Loan Mortgage Corporation Note	Aaa/AA+	Moody's/S&P	<5%	10/29/2018	273,810
Federal Home Loan Mortgage Corporation Note	Aaa/AA+	Moody's/S&P	<5%	11/26/2018	249,150
Federal Home Loan Mortgage Corporation Note	Aaa/AA+	Moody's/S&P	<5%	02/01/2028	1,549
Total Federal Home Loan Mortgage Corporation Notes					$ 773,537
Federal National Mortgage Association	Aaa/AA+	Moody's/S&P	<5%	10/01/2025	$ 1,705
Negotiable certificates of deposit					
Access National Bank	N/A	N/A	<5%	06/30/2016	$ 244,825
Ally Bank	N/A	N/A	<5%	08/20/2018	245,911
American Express Centurion Bank	N/A	N/A	<5%	10/16/2017	244,203
Apple Bank for Savings	N/A	N/A	<5%	03/30/2016	244,845
Avidbank	N/A	N/A	<5%	04/15/2016	244,890
Banc California	N/A	N/A	<5%	03/15/2016	244,907
Bank Hapoalim	N/A	N/A	<5%	12/09/2016	244,374
Bank India	N/A	N/A	<5%	03/09/2016	244,884
Beal Bank USA	N/A	N/A	<5%	06/08/2016	244,825
Beal Bank USA	N/A	N/A	<5%	05/11/2016	244,774
Berkshire Bank	N/A	N/A	<5%	06/30/2016	244,882
BMO Harris Bank	N/A	N/A	<5%	10/14/2016	244,597
Capital Bank	N/A	N/A	<5%	01/25/2016	245,000
Capital One Bank USA NA Glen Allen	N/A	N/A	<5%	06/26/2017	244,105
Capital One NA, Mclean	N/A	N/A	<5%	02/06/2017	244,837
Cathay Bank	N/A	N/A	<5%	05/06/2016	244,850
Community & Southern Bank	N/A	N/A	<5%	04/15/2016	229,928
Compass Bank	N/A	N/A	<5%	07/31/2017	244,397
Eagle Bank	N/A	N/A	<5%	12/29/2017	244,010
Essa Bank & Trust	N/A	N/A	<5%	11/30/2016	244,430
Everbank	N/A	N/A	<5%	09/15/2016	245,000
Fidelity Bank	N/A	N/A	<5%	02/23/2016	244,963
GE Cap Bank	N/A	N/A	<5%	08/24/2016	245,940
Goldman Sachs Bank	N/A	N/A	<5%	08/24/2016	244,479
Green Bank NA	N/A	N/A	<5%	01/30/2017	244,715
Isabella Bank	N/A	N/A	<5%	03/14/2016	244,958
MBank	N/A	N/A	<5%	02/23/2016	244,905
Mercantil Commercebank	N/A	N/A	<5%	09/09/2016	244,742

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk Credit Rating	Credit Risk Rating Agency	Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
Negotiable certificates of deposit (Continued)					
Merchants Bank	N/A	N/A	<5%	03/11/2016	244,884
Patriot National Bank	N/A	N/A	<5%	03/31/2016	245,022
Plains Comm Bank	N/A	N/A	<5%	07/28/2016	198,950
Reliant Bank	N/A	N/A	<5%	03/30/2016	244,917
Safra National Bank	N/A	N/A	<5%	07/29/2016	244,797
Sallie Mae Bank	N/A	N/A	<5%	12/11/2017	243,711
Santander Bank	N/A	N/A	<5%	08/12/2016	244,765
Sonabank NA	N/A	N/A	<5%	04/28/2016	245,025
Transportation Alliance Bank	N/A	N/A	<5%	01/08/2016	244,999
TCF National Bank	N/A	N/A	<5%	10/14/2016	244,597
The Citizens State Bank	N/A	N/A	<5%	12/29/2016	244,550
Wex Bank	N/A	N/A	<5%	05/13/2016	244,997
Witney Bank	N/A	N/A	<5%	02/18/2016	244,982
Total negotiable certificates of deposit					$ 9,975,372
Investment pools/mutual funds					
MAGIC Fund	N/A	N/A	46.8%	N/A	$ 12,075,263
Total investments					$ 22,825,877
Deposits					8,767,544
Petty cash					5,877
Total Cash and Investments					$ 31,599,298

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

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

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

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	$ 1,018,091	$ -
Special assessments	42,094	-
Accounts	968,864	-
Accrued interest	59,815	-
Due from other governments	9,411,500	-
Loans receivable	3,001,406	2,879,928
Total Governmental Activities	$ 14,501,770	$ 2,879,928

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 52 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, 2015, is as follows:

Receivable Fund	Payable Fund	Amount	Purpose
General	Forfeited Tax	$ 145,776	Forfeited tax apportionment and payment of fees
Road and Bridge	General	$ 7,819	Reimburse supplies and services
	Forfeited Tax	8,308	Reimburse supplies and services
Total due to Road and Bridge Fund		$ 16,127	
Total Due To/From Other Funds		$ 161,903	

3. Detailed Notes on All Funds

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2015, consisted of the following:

Transfers to Human Services Fund from General Fund	$	12,996	Collection of Title IV-D funds
Transfers to General Fund from Forfeited Tax Fund		55,776	Forfeited tax apportionment
Total Interfund Transfers	$	68,772	

C. Liabilities

1. Payables

Payables at December 31, 2015, were as follows:

		Governmental Activities
Accounts	$	1,006,715
Salaries		1,090,242
Contracts		491,062
Due to other governments		831,977
Total Payables	$	3,419,996

2. Other Postemployment Benefits - Retirees

The County provides post-retirement health care benefits for retired permanent full-time employees from age 55 to age 65 and their authorized dependents. The authority to provide this benefit is established in Minn. Stat. § 471.61, subd. 2a. The percentage of the premium paid varies depending on the years of service.

3. Detailed Notes on All Funds

C. Liabilities

2. Other Postemployment Benefits - Retirees (Continued)

As of year-end, the County has 47 eligible participants. The County finances the plan on a pay-as-you-go basis. Premiums are charged to the department from which the employee retired. During 2015, the County expended $568,342 for these benefits.

3. Long-Term Debt

Bonds Payable

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

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2015
2010A Taxable G.O. Capital Improvement Bonds (Build America Bonds)	2025	$180,000 - $920,000	1.25 - 5.25	$ 5,000,000	$ 4,240,000
2010B Taxable G.O. Capital Improvement Bonds (Recovery Zone Economic Development Bonds)	2030	$900,000 - $1,005,000	5.25 - 5.75	4,750,000	4,750,000
2012A G.O. Capital Improvement Refunding Bonds	2021	$250,000 - $560,000	0.40 - 1.50	4,010,000	3,240,000
Total				$ 13,760,000	$ 12,230,000
Less: unamortized discount					(35,080)
Total General Obligation Bonds, Net					$ 12,194,920

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2015, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds Principal	General Obligation Bonds Interest
2016	$ 735,000	$ 493,340
2017	730,000	483,046
2018	750,000	470,913
2019	755,000	456,957
2020	775,000	440,809
2021 - 2025	3,735,000	1,812,118
2026 - 2030	4,750,000	680,424
Total	$ 12,230,000	$ 4,837,607

Debt Refunding

In 2012, the County refunded the Series 2006 bonds by means of a crossover refunding mechanism. The County continued to make principal and interest payments on the Series 2006 bonds through the call date of February 1, 2015.

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	$ 12,950,000	$ -	$ 720,000	$ 12,230,000	$ 735,000
Bond discount	(37,564)	-	(2,484)	(35,080)	-
Compensated absences	3,044,459	181,574	-	3,226,033	-
Governmental Activities Long-Term Liabilities	$ 15,956,895	$ 181,574	$ 717,516	$ 15,420,953	$ 735,000

4. Pension Plans

A. Defined Benefit Pension Plans

1. 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 Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

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

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

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 Public Employees Correctional Fund. For members hired after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years.

4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

4. Pension Plans

   A. Defined Benefit Pension Plans

      2. Benefits Provided (Continued)

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

      3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015. Public Employees Police and Fire Fund members were required to contribute 10.80 percent of their annual covered salary in 2015. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary in 2015.

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

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.50
Public Employees Police and Fire Fund	16.20
Public Employees Correctional Fund	8.75

4. Pension Plans

A. Defined Benefit Pension Plans

3. Contributions (Continued)

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

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

General Employees Retirement Fund	$	1,096,628
Public Employees Police and Fire Fund		282,619
Public Employees Correctional Fund		71,483

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

4. Pension Costs

General Employees Retirement Fund

At December 31, 2015, the County reported a liability of $12,614,251 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.2434 percent. It was 0.2681 percent measured as of June 30, 2014. The County recognized pension expense of $1,387,279 for its proportionate share of the General Employees Retirement Fund's pension expense.

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 635,973
Difference between projected and actual investment earnings	1,194,133	-
Changes in proportion	-	870,212
Contributions paid to PERA subsequent to the measurement date	553,599	-
Total	$ 1,747,732	$ 1,506,185

A total of $553,599 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	$ (203,528)
2017	(203,528)
2018	(203,528)
2019	298,532

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Police and Fire Fund

At December 31, 2015, the County reported a liability of $2,045,221 for its proportionate share of the Public Employees Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.180 percent. It was 0.179 percent measured as of June 30, 2014. The County recognized pension expense of $353,967 for its proportionate share of the Public Employees Police and Fire Fund's pension expense.

The County also recognized $16,200 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Fund. Legislation requires the State of Minnesota to contribute $9 million to the Public Employees Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90 percent funded.

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 331,668
Difference between projected and actual investment earnings	356,346	-
Changes in proportion	9,000	-
Contributions paid to PERA subsequent to the measurement date	146,659	-
Total	$ 512,005	$ 331,668

A total of $146,659 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	$ 24,553
2017	24,553
2018	24,553
2019	24,553
2020	(64,534)

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Fund

At December 31, 2015, the County reported a liability of $66,478 for its proportionate share of the Public Employees Correctional Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.43 percent. It was 0.43 percent measured as of June 30, 2014. The County recognized pension expense of $72,312 for its proportionate share of the Public Employees Correctional Fund's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 25,452
Difference between projected and actual investment earnings	55,414	-
Contributions paid to PERA subsequent to the measurement date	35,989	-
Total	$ 91,403	$ 25,452

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Fund (Continued)

A total of $35,989 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	$ 5,370
2017	5,370
2018	5,370
2019	13,852

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2015, was $1,813,558.

5. Actuarial Assumptions

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

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

4. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for the Public Employees Police and Fire Fund was for the period July 1, 2004, through June 30, 2009. The experience study for the Public Employees Correctional Fund was for the period July 1, 2006, through June 30, 2011.

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

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

4. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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

6. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the General Employees Retirement Fund net pension liability	$ 19,834,087	$ 12,614,251	$ 6,651,776
Public Employees Police and Fire Fund net pension liability	3,986,158	2,045,221	441,670
Public Employees Correctional Fund net pension liability	462,964	66,478	(250,871)

4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

8. Pension Plan Fiduciary Net Position

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

B. Defined Contribution Plan

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

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2015, were:

	Employee	Employer
Contribution amount	$ 5,074	$ 5,074
Percentage of covered payroll	5%	5%

5. 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.

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

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

B. Northland VEBA Trust Plan

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

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

5. Postemployment Health Care

B. Northland VEBA Trust Plan (Continued)

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.

6. 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 $490,000 per claim in 2015 and $500,000 per claim in 2016. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

6. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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.

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.

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 $6,000,000 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, 2015, the outstanding principal balance was $6,000,000.

6. 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 the Arrowhead Regional Corrections Board, which was established pursuant to the Community Corrections Act, Minn. Stat. §§ 401.01-.16.

The Arrowhead Regional Corrections Board 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 $1,790,353 in funding in 2015.

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; the Lakes and Pines Community Action Agency; the Cloquet Area Special Education Cooperative; Fond du Lac Reservation Tribal Council; Arrowhead Regional Corrections; and the Human Development Center.

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Carlton County Children and Family Service Collaborative (Continued)

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

Control of the Collaborative is vested in a Board of Directors. Carlton County has two members on the Board. Financing is provided by state and local grants, appropriations from Collaborative members, and miscellaneous revenues. Carlton County is the fiscal agent for the Collaborative and handles all of the financial transactions for this organization. Financial information for the Collaborative for the fiscal year ended December 31, 2015, is accounted for in an agency fund of Carlton County.

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

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

The Community Health Board is composed of nine members. The Carlton, Cook, and Lake County Boards of Commissioners each appoint two members; the St. Louis County Board of Commissioners appoints three members. Financing is obtained through federal and state grants. Carlton County provided no funding to this organization in 2015.

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

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

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. The County is not a funding mechanism for this organization.

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

Separate financial information can be obtained from:

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

Minnesota Counties Information Systems (MCIS)

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

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

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

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Minnesota Counties Information Systems (MCIS) (Continued)

Separate financial information can be obtained from:

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

Arrowhead Health Alliance

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

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

Carlton County contributed $252,397 in start-up funds to the Arrowhead Health Alliance in 2007. Carlton County provided no funding to this organization in 2015.

Northeast Minnesota Regional Radio Board

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

The joint powers are the Counties of Aitkin, Carlton, Cass, Cook, Crow Wing, Itasca, Kanabec, Koochiching, Lake, Pine, and St. Louis, and the Cities of Duluth, Hibbing, International Falls, and Virginia. Control of the Northeast Minnesota Regional Radio

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northeast Minnesota Regional Radio Board (Continued)

Board is vested in a Board of Directors composed of one County Commissioner from each of the member counties and one City Council member from each of the member cities. In addition, there is one member from the Northeast Minnesota Regional Advisory Committee, one member from the Northeast Minnesota Regional Radio System User Committee, and one member from the Northeast Minnesota Owners and Operators Committee who are also voting members of the Board.

Itasca County is the fiscal agent for the Northeast Minnesota Regional Radio Board. Funding is provided by grants and contributions from participating members. Carlton County contributed no funding in 2015.

Separate financial information can be obtained from:

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

Region Two - Northeast Minnesota Homeland Security Emergency Management Organization

The Region Two - Northeast Minnesota 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.

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

E. Tax-Forfeited Land

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

F. Carlton County Economic Development Authority

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

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

7. Subsequent Event

Bond Refunding

In July 2016, Carlton County issued $8,620,000 General Obligation Capital Improvement Bonds, Series 2016. The purpose of the bonds is to refund the $4,035,000 outstanding principal amount of the $5,000,000 Taxable General Obligation Capital Improvement Bonds (Build America Bonds), Series 2010A, and the $4,750,000 outstanding principal of the Taxable General Obligation Capital Improvement Bonds (Recovery Zone Economic Development Bonds), Series 2010B.

REQUIRED SUPPLEMENTARY INFORMATION

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CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT A-1

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

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Revenues				
Taxes	$ 12,758,550	$ 12,758,550	$ 12,745,612	$ (12,938)
Special assessments	500,000	500,000	538,022	38,022
Licenses and permits	73,575	73,575	80,159	6,584
Intergovernmental	3,024,031	3,024,031	3,955,348	931,317
Charges for services	1,969,039	1,969,039	2,252,223	283,184
Fines and forfeits	36,000	36,000	55,979	19,979
Gifts and contributions	5,500	5,500	40,043	34,543
Investment income	51,200	51,200	106,023	54,823
Miscellaneous	601,430	601,430	641,785	40,355
Total Revenues	**$ 19,019,325**	**$ 19,019,325**	**$ 20,415,194**	**$ 1,395,869**
Expenditures				
Current				
General government				
Commissioners	$ 494,097	$ 494,097	$ 320,848	$ 173,249
Courts	94,210	94,210	124,796	(30,586)
County auditor	996,783	996,783	918,823	77,960
License bureau	368,675	368,675	352,272	16,403
County assessor	786,863	786,863	767,076	19,787
Personnel	400,980	400,980	376,844	24,136
Data processing	920,449	920,449	912,247	8,202
Attorney	1,083,605	1,083,605	1,065,412	18,193
Law library	36,000	36,000	34,400	1,600
Recorder	552,429	552,429	485,139	67,290
Surveyor	15,000	15,000	15,000	-
Planning and zoning	408,943	408,943	402,532	6,411
Maintenance	996,872	996,872	1,000,078	(3,206)
Veterans service officer	301,354	301,354	287,898	13,456
Total general government	**$ 7,456,260**	**$ 7,456,260**	**$ 7,063,365**	**$ 392,895**

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

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT A-1
(Continued)

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 3,012,642	$ 3,012,642	$ 3,081,833	$ (69,191)
Snowmobile safety	4,783	4,783	2,538	2,245
Boat and water safety	7,050	7,050	6,340	710
Ambulance	80,350	80,350	80,350	-
Animal control	40,000	40,000	40,000	-
Coroner	85,000	85,000	91,005	(6,005)
E-911	952,801	952,801	1,027,672	(74,871)
County jail	2,050,550	2,050,550	1,866,177	184,373
Community corrections	1,800,097	1,800,097	1,790,098	9,999
Court services	119,242	119,242	109,017	10,225
Civil defense	56,292	56,292	55,752	540
Total public safety	**$ 8,208,807**	**$ 8,208,807**	**$ 8,150,782**	**$ 58,025**
Sanitation				
Solid waste	$ 1,190,544	$ 1,190,544	$ 1,219,401	$ (28,857)
Recycling	216,040	216,040	196,132	19,908
Total sanitation	**$ 1,406,584**	**$ 1,406,584**	**$ 1,415,533**	**$ (8,949)**
Culture and recreation				
Historical society	$ 43,260	$ 43,260	$ 43,260	$ -
County fair	36,750	36,750	36,750	-
Parks	67,700	67,700	254,342	(186,642)
Regional library	149,490	149,490	149,817	(327)
Total culture and recreation	**$ 297,200**	**$ 297,200**	**$ 484,169**	**$ (186,969)**
Conservation of natural resources				
County extension	$ 460,806	$ 460,806	$ 463,631	$ (2,825)
Soil and water conservation	128,300	128,300	128,300	-
Weed inspector	7,305	7,305	7,074	231
Timber development	10,200	10,200	8,322	1,878
Resource development	46,500	46,500	57,050	(10,550)
Water planning	92,053	92,053	140,838	(48,785)
Other conservation	7,600	7,600	-	7,600
Total conservation of natural resources	**$ 752,764**	**$ 752,764**	**$ 805,215**	**$ (52,451)**

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

EXHIBIT A-1
(Continued)

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

	Budgeted Amounts				Actual		Variance with	
	Original		Final		Amounts		Final Budget	
Expenditures								
Current (Continued)								
Economic development								
Airport commission	$	510,317	$	510,317	$	298,602	$	211,715
Rail authority		300		300		25		275
Arrowhead Regional Development		49,060		49,060		-		49,060
Iron Range Resources and Rehabilitation Board		522,093		522,093		300,781		221,312
Total economic development	**$**	**1,081,770**	**$**	**1,081,770**	**$**	**599,408**	**$**	**482,362**
Total Expenditures	**$**	**19,203,385**	**$**	**19,203,385**	**$**	**18,518,472**	**$**	**684,913**
Excess of Revenues Over (Under) Expenditures	**$**	**(184,060)**	**$**	**(184,060)**	**$**	**1,896,722**	**$**	**2,080,782**
Other Financing Sources (Uses)								
Transfers in	$	235,000	$	235,000	$	55,776	$	(179,224)
Transfers out		100,000		100,000		(12,996)		(112,996)
Total Other Financing Sources (Uses)	**$**	**335,000**	**$**	**335,000**	**$**	**42,780**	**$**	**(292,220)**
Net Change in Fund Balance	**$**	**150,940**	**$**	**150,940**	**$**	**1,939,502**	**$**	**1,788,562**
Fund Balance - January 1		**16,249,576**		**16,249,576**		**16,249,576**		**-**
Fund Balance - December 31	**$**	**16,400,516**	**$**	**16,400,516**	**$**	**18,189,078**	**$**	**1,788,562**

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

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT A-2

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 2,694,682	$ 2,694,682	$ 3,740,712	$ 1,046,030
Intergovernmental	7,208,485	7,208,485	7,308,216	99,731
Charges for services	707,000	707,000	403,161	(303,839)
Investment income	-	-	1,788	1,788
Miscellaneous	465,400	465,400	415,748	(49,652)
Total Revenues	**$ 11,075,567**	**$ 11,075,567**	**$ 11,869,625**	**$ 794,058**
Expenditures				
Current				
Highways and streets				
Administration	$ 878,771	$ 878,771	$ 872,639	$ 6,132
Maintenance	3,362,615	3,362,615	3,244,870	117,745
Construction	4,978,210	4,978,210	8,585,243	(3,607,033)
Equipment maintenance and shop	1,855,971	1,855,971	1,294,776	561,195
Total Expenditures	**$ 11,075,567**	**$ 11,075,567**	**$ 13,997,528**	**$ (2,921,961)**
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ -**	**$ (2,127,903)**	**$ (2,127,903)**
Fund Balance - January 1	**5,061,243**	**5,061,243**	**5,061,243**	**-**
Increase (decrease) in inventories	**-**	**-**	**(131,968)**	**(131,968)**
Fund Balance - December 31	**$ 5,061,243**	**$ 5,061,243**	**$ 2,801,372**	**$ (2,259,871)**

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, 2015

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 6,966,672	$ 6,966,672	$ 6,854,815	$ (111,857)
Intergovernmental	8,593,332	8,504,182	9,693,989	1,189,807
Charges for services	1,006,800	1,006,800	1,149,989	143,189
Miscellaneous	376,000	376,000	401,767	25,767
Total Revenues	**$ 16,942,804**	**$ 16,853,654**	**$ 18,100,560**	**$ 1,246,906**
Expenditures				
Current				
Human services				
Income maintenance	$ 4,634,095	$ 4,634,095	$ 4,683,388	$ (49,293)
Social services	10,906,046	10,906,046	10,704,119	201,927
Total human services	**$ 15,540,141**	**$ 15,540,141**	**$ 15,387,507**	**$ 152,634**
Health	1,818,170	1,818,170	1,790,538	27,632
Total Expenditures	**$ 17,358,311**	**$ 17,358,311**	**$ 17,178,045**	**$ 180,266**
Excess of Revenues Over (Under) Expenditures	**$ (415,507)**	**$ (504,657)**	**$ 922,515**	**$ 1,427,172**
Other Financing Sources (Uses)				
Transfers in	-	9,000	12,996	3,996
Net Change in Fund Balance	**$ (415,507)**	**$ (495,657)**	**$ 935,511**	**$ 1,431,168**
Fund Balance - January 1	**9,296,650**	**9,296,650**	**9,296,650**	**-**
Fund Balance - December 31	**$ 8,881,143**	**$ 8,800,993**	**$ 10,232,161**	**$ 1,431,168**

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

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT A-4

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.2434%	$ 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.

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT A-5

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	$ 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.
Carlton County's year-end is December 31.

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT A-6

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.180%	$ 2,045,221	$ 1,646,691	124.20%	86.61%

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

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT A-7

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	$ 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.
Carlton 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 CORRECTIONAL FUND
DECEMBER 31, 2015

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.43%	$ 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-9

SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL FUND
DECEMBER 31, 2015

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	$ 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.
Carlton County's year-end is December 31.

CARLTON COUNTY
CARLTON, MINNESOTA

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

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. 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, 2015, expenditures exceeded appropriations in the following fund:

	Budget	Actual	Excess
Road and Bridge Special Revenue Fund	$ 11,075,567	$ 13,997,528	$ 2,921,961

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OTHER INFORMATION

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CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT B-1

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,129,678	$ 1,129,678	$ 1,115,991	$ (13,687)
Intergovernmental	165,000	165,000	202,060	37,060
Total Revenues	**$ 1,294,678**	**$ 1,294,678**	**$ 1,318,051**	**$ 23,373**
Expenditures				
Debt service				
Principal	$ 720,000	$ 720,000	$ 720,000	$ -
Interest	574,678	574,678	501,846	72,832
Administrative charge	-	-	2,900	(2,900)
Total Expenditures	**$ 1,294,678**	**$ 1,294,678**	**$ 1,224,746**	**$ 69,932**
Change in Fund Balance	**$ -**	**$ -**	**$ 93,305**	**$ 93,305**
Fund Balance - January 1	**1,771,818**	**1,771,818**	**1,771,818**	**-**
Fund Balance - December 31	**$ 1,771,818**	**$ 1,771,818**	**$ 1,865,123**	**$ 93,305**

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CARLTON COUNTY
CARLTON, MINNESOTA

NONMAJOR GOVERNMENTAL FUND

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.

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CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT B-2

BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Miscellaneous	$ 407,509	$ 407,509	$ 578,008	$ 170,499
Expenditures				
Current				
Conservation of natural resources				
Land use	407,509	407,509	484,839	(77,330)
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ -**	**$ 93,169**	**$ 93,169**
Other Financing Sources (Uses)				
Transfers out	-	-	(55,776)	(55,776)
Net Change in Fund Balance	**$ -**	**$ -**	**$ 37,393**	**$ 37,393**
Fund Balance - January 1	**93,678**	**93,678**	**93,678**	**-**
Fund Balance - December 31	**$ 93,678**	**$ 93,678**	**$ 131,071**	**$ 37,393**

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CARLTON COUNTY
CARLTON, MINNESOTA

FIDUCIARY FUNDS

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

- Motor Vehicle Registration
- Employee Flexible Benefits
- State
- School Districts
- Towns and Cities
- Taxes and Penalties
- Northeastern Waste Advisory Council
- Refunding
- Collaborative

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CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT C-1

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

	Balance January 1	Additions	Deductions	Balance December 31
MOTOR VEHICLE REGISTRATION				
Assets				
Cash and pooled investments	$ -	$ 4,565,200	4,565,200	$ -
Liabilities				
Accounts payable	$ -	$ 4,565,200	$ 4,565,200	$ -
EMPLOYEE FLEXIBLE BENEFITS				
Assets				
Cash and pooled investments	$ 76,702	$ 142,752	$ 138,022	$ 81,432
Liabilities				
Accounts payable	$ 76,702	$ 142,752	$ 138,022	$ 81,432
STATE				
Assets				
Cash and pooled investments	$ 67,216	$ 5,551,500	$ 5,484,071	$ 134,645
Liabilities				
Due to other governments	$ 67,216	$ 5,551,500	$ 5,484,071	$ 134,645

EXHIBIT C-1
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
SCHOOL DISTRICTS				
Assets				
Cash and pooled investments	$ 151,868	$ 11,364,482	$ 11,324,555	$ 191,795
Liabilities				
Due to other governments	$ 151,868	$ 11,364,482	$ 11,324,555	$ 191,795
TOWNS AND CITIES				
Assets				
Cash and pooled investments	$ 116,460	$ 10,846,346	$ 10,794,385	$ 168,421
Liabilities				
Due to other governments	$ 116,460	$ 10,846,346	$ 10,794,385	$ 168,421
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ -	$ 51,367,436	$ 51,367,436	$ -
Liabilities				
Due to other governments	$ -	$ 51,367,436	$ 51,367,436	$ -

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT C-1
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
NORTHEASTERN WASTE ADVISORY COUNCIL				
Assets				
Cash and pooled investments	**$ 1,194**	**$ 1**	**$ -**	**$ 1,195**
Liabilities				
Due to other governments	**$ 1,194**	**$ 1**	**$ -**	**$ 1,195**
REFUNDING				
Assets				
Cash and pooled investments	**$ 179,764**	**$ 1,172,030**	**$ 246,502**	**$ 1,105,292**
Liabilities				
Due to other governments	**$ 179,764**	**$ 1,172,030**	**$ 246,502**	**$ 1,105,292**
COLLABORATIVE				
Assets				
Cash and pooled investments	**$ 621,113**	**$ 397,685**	**$ 370,983**	**$ 647,815**
Liabilities				
Accounts payable	$ 4,078	$ 672	$ 4,078	$ 672
Salaries payable	9,482	2,199	9,482	2,199
Due to other governments	607,553	644,944	607,553	644,944
Total Liabilities	**$ 621,113**	**$ 647,815**	**$ 621,113**	**$ 647,815**

EXHIBIT C-1
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	**$ 1,214,317**	**$ 85,407,432**	**$ 84,291,154**	**$ 2,330,595**
Liabilities				
Accounts payable	$ 80,780	$ 4,708,624	$ 4,707,300	$ 82,104
Salaries payable	9,482	2,199	9,482	2,199
Due to other governments	1,124,055	80,946,739	79,824,502	2,246,292
Total Liabilities	**$ 1,214,317**	**$ 85,657,562**	**$ 84,541,284**	**$ 2,330,595**

OTHER SCHEDULE

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CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT D-1

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

Appropriations and Shared Revenue		
State		
Highway users tax	$	5,698,578
County program aid		1,921,821
PERA rate reimbursement		54,851
Disparity reduction aid		371,730
Police aid		174,799
E-911		113,901
Market value credit		172,988
Casino revenue aid		54,032
Total shared revenue	**$**	**8,562,700**
Reimbursement for Services		
Minnesota Department of Human Services	**$**	**1,407,818**
Payments		
Local		
Other local contributions	$	793,928
State		
Payments in lieu of taxes		399,979
Total payments	**$**	**1,193,907**
Grants		
State		
Minnesota Department/Board of		
Crime Victim Services	$	52,000
Public Safety		81,365
Transportation		125,635
Health		606,925
Natural Resources		303,272
Human Services		2,660,160
Water and Soil Resources		89,028
Office of Environmental Assistance		109,280
Minnesota Pollution Control Agency		28,778
Iron Range Resources and Rehabilitation Board		288,777
Total state	**$**	**4,345,220**

(Unaudited)

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT D-1
(Continued)

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

Grants (Continued)	
Federal	
Department of	
Agriculture	$ 649,346
Transportation	752,696
Education	2,492
Health and Human Services	3,813,405
Homeland Security	256,087
Total federal grants	**$ 5,474,026**
Total state and federal grants	**$ 9,819,246**
Other Federal	
Treasury	
Build America Bonds Interest Subsidy	**$ 175,942**
Total Intergovernmental Revenue	**$ 21,159,613**

**Management and
Compliance Section**

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

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **Adverse on the government-wide financial statements because Carlton County has not reported and depreciated capital assets and eliminated capital outlay expenditures in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Also, the County has not reported a liability and related expense for other postemployment benefits in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.**

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

Internal control over financial reporting:
- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major programs:
- Material weaknesses identified? **Yes**
- 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

Airport Improvement Program	CFDA No. 20.106
Child Support Enforcement	CFDA No. 93.563
Medical Assistance Program	CFDA No. 93.778

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-011

Capital Assets

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

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

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

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

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

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

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

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

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

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

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

6. Periodically verify departmental inventory by physical inspection.

Client's Response:

The County is working to contract with a vendor who will provide assistance to Carlton County in the determination and valuation of the County's capital assets. It is anticipated that the vendor will also assist the County in the establishment of policies and procedures for the implementation and maintenance of a capital asset management system. Although this project has yet to be undertaken, it is the intention of the Carlton County Board of Commissioners, in conjunction with the Carlton County Auditor/Treasurer that this task should be undertaken in the near future.

Finding 1996-012

Segregation of Duties

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

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

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

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

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

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

Client's Response:

The Carlton County Board of Commissioners is aware of the existing conditions with regard to the segregation of duties. We do and will continue to review the duties and responsibilities of County Staff and to make appropriate changes where necessary and feasible.

Finding 1996-018

Jail Canteen Account

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

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

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

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

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

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

Client's Response:

The County Auditor will work with the County Board and County Sheriff to include the jail canteen accounts within the general ledger system while maintaining the dedication of the funds for the benefit of the inmates. The County did hire a new Jail Administrator (due to a retirement) and has entered into a contract for jail vending services; it is hoped that this issue can be resolved in 2017.

Finding 2006-002

Audit Adjustments

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

Condition: During our audit, we identified material adjustments that resulted in significant changes to the County's financial statements. The County provides cash basis financial statements and prepares some of the modified accrual information necessary to adjust the cash basis financial statements to the modified accrual basis.

Context: The inability to make accrual adjustments or to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: The following audit adjustments were reviewed and approved by the appropriate Carlton County staff and are reflected in the financial statements:

- Road and Bridge Special Revenue Fund - Due from other governments decreased by $1,759,888, deferred inflows of resources decreased by $570,361, and revenues decreased by $1,189,527 due to an overstatement of intergovernmental receivables.

- Audit adjustments were made to adjust the modified accrual financial statements to the accrual basis for the government-wide financial statements. Total assets decreased by $161,903 due to the elimination of intra-activity accounts. Deferred inflows of resources decreased by $5,950,347 as a result of recognition of revenues deferred at the fund level.

Cause: County staff did not have the time to prepare all of the information necessary to provide accurate financial statements.

Recommendation: We recommend County staff review the trial balances and journal entries in detail so that, in future audits, this information can be prepared by the County.

Client's Response:

The County Auditor's Office staff will work to review the County prepared trial balances and prepare the necessary (if any) audit adjustments and or reclassifications so as to ensure the County financial statements reflect the accrual basis of accounting.

Finding 2006-003

Journal Entries

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

Condition: Appropriate County employees do 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 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.

Client's Response:

The County Auditor's Office 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's Office to establish review and approval procedures for all journal entries.

Finding 2006-004

Accounting Policies and Procedures Manual

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

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

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

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

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

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

Client's Response:

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

Finding 2006-005

Computer Risk Management

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

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

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

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

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

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

Client's Response:

The County Board, in conjunction with the IT staff will develop a plan to ensure internal controls are in place so as to reduce the risk associated with the County's computer systems.

Finding 2008-001

Other Postemployment Benefits (OPEB)

Criteria: The GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which provides the accounting and reporting standards for OPEB offered to retirees. GASB Statement 45 was applicable to Carlton County for the year ended December 31, 2008.

Condition: GASB Statement 45 has not yet been implemented by Carlton County as required. The County has not undergone an actuarial study to determine its OPEB liability. The County has not reported its OPEB liability or the change to the net OPEB obligation in the governmental activities.

Context: The County should have determined its net OPEB liability and annual OPEB cost in accordance with GASB Statement 45.

Effect: Because Carlton County has not complied with the requirements of GASB Statement 45, an adverse opinion is issued on the government-wide financial statements.

Cause: The County has not hired an actuary to determine its OPEB liability and annual cost necessary to meet the requirements for financial reporting under GASB Statement 45.

Recommendation: We recommend the County Board determine the County's net OPEB liability and annual OPEB cost in accordance with the requirements of GASB Statement 45. This will require the County Board to contract with an actuarial service to determine the liability.

Client's Response:

Carlton County will work to determine the County's net OPEB liability so as to be GASB 45 compliant.

Finding 2012-002

Timeliness of Preparation of Financial Statements

Criteria: Management is responsible for preparing the County's financial statements in accordance with generally accepted accounting principles and Title 2 U.S. *Code of Federal Regulations* § 200.510(a). The financial statement preparation requires internal control over both (1) recording, processing, and summarizing accounting data (that is, maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

Condition: Certain information needed for financial reporting was not prepared by County staff in advance of the audit. Although County staff attempted to provide information as timely as possible during the audit, there were delays in obtaining information requested. With the exception of the Human Services Special Revenue Fund, various work papers and schedules necessary to support the County's conversion of its cash basis general ledger to modified accrual and the preparation of the related trial balances and financial statements were provided for audit as they became available between September 12 and October 14, 2016.

Context: Preparation of information included in the County's financial statements is performed by the County Auditor/Treasurer's Office. That information is to be provided to the Office of the State Auditor in the time, form, and manner to finalize the audit in order to meet the County's September 30 single audit deadline.

Effect: Delays in completing the County's financial statements within a reasonable amount of time. As a result, the County's audit report was not issued in time to meet the September 30, 2016, single audit deadline.

Cause: Certain financial information necessary for the County's financial statements was not completed prior to the audit.

Recommendation: The Board of County Commissioners and management should take responsibility for the financial statements by reviewing internal controls currently in place over the preparation of the financial statements. Procedures should be implemented to ensure that the necessary financial information be prepared in a manner that allows the auditors an adequate amount of time to complete the audit by the County's required deadline.

Client's Response:

Carlton County is aware of the situation whereby the County financial statements are not necessarily prepared in a timely fashion in accordance with GAAP and Uniform Guidance. The County has hired additional staff in the Auditor/Treasurer Offices and will work to adopt procedures to ensure that the necessary financial information is prepared in a manner that allows our auditors adequate time to complete their audit by the required deadlines.

PREVIOUSLY REPORTED ITEM RESOLVED

Approval of Time Sheets (2007-001)
In previous audits, it was noted that the County does not have a policy or procedure addressing who should be approving supervisors' time reports.

Resolution
In 2015, the Carlton County Board of Commissioners approved a policy requiring no further approval signatures on a supervisor's time report.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2013-001

Identification of Federal Awards

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

Pass-Through Agency: Minnesota Department of Transportation

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.510(b) requires the auditee to prepare a Schedule of Expenditures of Federal Awards (SEFA) and indicates that auditee responsibilities include the identification of all federal awards received and expended, and the federal program under which they were received.

Condition: Carlton County did not adequately identify amounts expended for federal awards on the SEFA. During our audit of the SEFA, we identified the following additional adjustment to expenditures reported by the County:

- The County over-reported expenditures for the Airport Improvement Program (CFDA No. 20.106) by $230,437.

Questioned Costs: None.

Context: In 2015, Carlton County reported total federal expenditures in the amount of $4,977,297.

Effect: The inability to identify and track federal expenditures or to detect significant misstatements in the SEFA increases the likelihood that federal expenditures would not be fairly stated.

Cause: The County erred in its determination and classification of the actual amounts received and expended under this federal program. The County's procedures and internal controls for identifying federal financial assistance for preparation of its SEFA are inadequate.

Recommendation: We recommend County management develop a process for adequately identifying all federal revenues and accumulating the information needed to prepare the SEFA. Those responsible for compiling the SEFA should understand the components of the SEFA and properly gather the correct information and maintain supporting documentation. For each federal award identified, the County should determine the correct program CFDA title and number, award number and year, federal grantor agency, pass-through agency, and amount received and expended. The County should also reconcile the SEFA amounts to the general ledger and financial statements.

<u>Corrective Action Plan</u>:

<u>Name of Contact Person Responsible for Corrective Action</u>:

Paul G. Gassert, Carlton County Auditor/Treasurer

<u>Corrective Action Planned</u>:

It is the intent of Carlton County to identify all federal revenues at the time of County Board acceptance of federal grants. It is currently the policy of Carlton County to obtain County Board approval prior to the acceptance of any/all federal grant awards. The County has hired additional staff in the Auditor/Treasurer Offices to assist with this project.

<u>Anticipated Completion Date</u>:

December 31, 2017

Finding 2014-002

Documentation of Capital Assets

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

Pass-Through Agency: Minnesota Department of Transportation

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

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

Questioned Costs: None.

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

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

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

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

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Paul G. Gassert, Carlton County Auditor/Treasurer

Corrective Action Planned:

It is the intent of Carlton County to establish a record keeping system for capital assets and to further establish formal policies and procedures to track equipment purchased with grant funds in accordance with Uniform Guidance.

Anticipated Completion Date:

December 31, 2017

ITEM ARISING THIS YEAR

Finding 2015-001

Medical Assistance Eligibility

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award #1505MN5ADM, 2015

Pass-Through Agency: Minnesota Department of Human Services

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

Condition: The state maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. While periodic supervisory case reviews are performed to provide reasonable assurance of compliance with grant requirements for eligibility, the following exceptions were detected in our sample of 40 cases tested:

- In one instance, an asset verification was performed, but the appropriate panel in MAXIS was not updated to reflect this. There was no effect on the participant's eligibility.

- In one instance, the balance in a participant's bank account was not verified by the financial worker. It is unknown if this information would have caused the participant to be ineligible.

- In one instance, a participant did not answer the question on their health care renewal form relating to financial assets held by the participant. There was no documentation that the financial worker verified whether the participant held any of these assets. It is unknown if this information would have caused the participant to be ineligible.

- In one instance, a financial worker incorrectly classified funds received from the sale of a vehicle as unearned income. There was no effect on the participant's eligibility.

The sample size was based on guidance from Chapter 21 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

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

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

Effect: Missing or inaccurate information in MAXIS increases the risk that participants will receive benefits when they are not eligible or will be incorrectly denied benefits.

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

Recommendation: We recommend the County implement additional procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is obtained and properly input into MAXIS. In addition, consideration should be given to providing additional training to program personnel and increased supervisory review for new and less experienced staff.

<u>Corrective Action Plan</u>:

<u>Name of Contact Person Responsible for Corrective Action</u>:

David Lee, Carlton County Public Health and Human Services Director

<u>Corrective Action Planned</u>:

It is the intent of Carlton County to establish and implement appropriate procedures so as to provide reasonable assurance that all necessary documentation to support eligibility determinations are obtained and properly input into MAXIS.

<u>Anticipated Completion Date</u>:

December 31, 2017

PREVIOUSLY REPORTED ITEM RESOLVED

Unsupported Adjustments to Nurse's Time Reports (CFDA No. 93.558) (2014-001)

In the previous audit, it was noted that Health Department supervisors made revisions to nursing staff time reports reallocating activity codes originally recorded by the employee without documentation of specific reasoning for the changes made, which affected the Temporary Assistance for Needy Families (TANF) Home Visits program.

Resolution

No instances of undocumented changes to original time reports were identified in the current audit.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-003

Electronic Funds Transfer Policy

Criteria: The County Board is required by Minn. Stat. § 385.071 to establish policies and procedures for investment and expenditure transactions via electronic funds transfers.

Condition: The County Board has not established written policies and procedures regarding the use of electronic funds transfers.

Context: The County Auditor/Treasurer has developed a draft policy, but it has not yet been approved by the County Board.

Effect: The County is not in compliance with Minn. Stat. § 385.071.

Cause: The County Board has not yet approved the draft policy.

Recommendation: We recommend the County Board establish written policies and procedures for electronic funds transfers as required by Minn. Stat. § 385.071.

Client's Response:

The County has obtained copies of other counties' policies and drafted a policy to fit the needs of Carlton County. A 'draft of the policy' has been prepared and is currently being reviewed by the Carlton County Policy Committee. This draft policy will be presented to the County Board for their consideration and/or approval.

Finding 1996-004

Unclaimed Funds

Criteria: The Minnesota Unclaimed Property Law requires that uncashed vendor or refund checks be reported to the state after three years. The reporting requirements for unclaimed property and its payment to the Commissioner of the Minnesota Department of Commerce are detailed in Minn. Stat. §§ 345.38-.43.

Condition: The County Auditor/Treasurer has established a system for keeping track of checks to be reported to the Commissioner. However, the County Auditor/Treasurer has not filed any unclaimed property reports with the state or turned over any money to the state. Our review of the County's documentation of unclaimed checks revealed the amount of unclaimed checks not turned over to the state was $56,531 as of December 31, 2015.

Context: Any person who willfully refuses to pay or deliver abandoned property to the Commissioner under Minn. Stat. § 345.55 shall be guilty of a gross misdemeanor.

Effect: Noncompliance with Minn. Stat. ch. 345.

Cause: County staff are responsible for keeping an updated file of unclaimed property. The County Auditor/Treasurer is responsible to file required reports with the Commissioner of the Minnesota Department of Commerce and turn over any unclaimed property after three years. The County continues not to comply with this legal requirement.

Recommendation: We recommend the County Auditor/Treasurer file the required unclaimed property reports with the Commissioner of the Minnesota Department of Commerce and turn over any funds required to be remitted to the state.

Client's Response:

The County has resolved this issue and the unclaimed funds have been reported and remitted to the Department of Commerce/Unclaimed Property Division.

Finding 1996-025

Travel Policy

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

Condition: The County Board does not have a formal written travel policy. The County has set meal and mileage allowances by various Board resolutions; however, no detailed guidance is available on travel expenses. Travel claims are submitted on the County's regular voucher form, as there is no separate travel claim form. Department heads approve their own travel claims.

Context: A formal travel policy should clarify the County Board's position regarding travel expenses and would result in uniform treatment of travel claims. The policy could include the following items:

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

Effect: Noncompliance with Minn. Stat. § 471.661. Internal controls over travel claim transactions are weak without a standard governing approval, processing, and payment of all types of travel claims incurred by County staff. Also, without a separate travel claim form, it is more difficult to ensure that the type of expense, governmental purpose, documentation, and approval are appropriate.

Cause: A draft travel policy exists, but as of yet, has not been formally approved by the County Board. The County lacks a formal, comprehensive accounting policies and procedures manual that could incorporate a uniform travel policy.

Recommendation: We recommend the County Board comply with Minn. Stat. § 471.661 and establish a formal travel policy incorporating the above items. Travel claims should be approved by someone other than the person submitting the claim.

Client's Response:

The County Board will be considering a formal travel policy. A 'draft of the policy' has been prepared and is currently being reviewed by the Carlton County Policy Committee.

Finding 2004-001

Publication of Financial Statements

Criteria: The County is required by Minn. Stat. § 375.17 to annually publish its financial statements in a qualified legal newspaper in the County.

Condition: The County Auditor/Treasurer did not publish the financial statements for 2015.

Context: Financial statements have not been published as required under Minn. Stat. § 375.17.

Effect: The County is not in compliance with Minn. Stat. § 375.17.

Cause: The County has limited staffing available that would allow it to meet this requirement and perform its other critical functions.

Recommendation: We recommend the County Auditor/Treasurer publish the County's financial statements annually as required by Minn. Stat. § 375.17.

Client's Response:

As required by Minn. Stat. § 375.17, the Carlton County Auditor will ensure that the financial statements for 2003 through 2014 are published in the County's legal newspaper.

Finding 2008-002

Collateral Assignments

Criteria: Collateral assignments are required by Minn. Stat. § 118A.03, subd. 4, to be in writing and provide, upon default, that a depository shall release collateral pledged to the government entity on demand.

Condition: Carlton County has deposits with Wells Fargo Bank. To secure these deposits, Wells Fargo Bank has pledged collateral to Carlton County. The most current pledge agreement on file is dated 2003. The Wells Fargo Bank pledge agreement does not contain the language required by Minn. Stat. § 118A.03, subd. 4, that, "upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged."

Context: Current collateral assignments are advisable to ensure that proper statutory language is included in the collateral assignments so that the County's interests are properly protected. The collateral assignments should also be approved by the bank's board of directors or loan committee in order to be enforceable. See 12 U.S.C. § 1823(e).

Effect: The current depository pledge agreement with Wells Fargo Bank does not conform to the requirements of Minn. Stat. § 118A.03, subd. 4.

Cause: The County has not been successful in its attempts to obtain a pledge agreement from Wells Fargo Bank that conforms to the requirements of Minn. Stat. § 118A.03, subd. 4.

Recommendation: We recommend the County Auditor/Treasurer obtain a new collateral assignment from Wells Fargo Bank. The new assignment should be reviewed to make sure it includes the statutory language required by Minn. Stat. § 118A.03, subd. 4, and is approved by the bank's board of directors or loan committee.

Client's Response:

Carlton County is working to secure a new (current) collateral agreement with Wells Fargo.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-024

Budgets

Criteria: The County Board should approve a formal budget policy. All budget transfers or amendments that require Board approval under the written policy should be approved by the Board. Approval should be documented in a manner that allows the original Board-approved budget to be reconciled to the final amended budget used for reporting purposes. The minutes should include the amounts of any transfers or budget changes in addition to the explanation for the change. All Board-approved budget amendments should be input in the general ledger system.

Condition: The County Board does not have a formal written budget policy. Under past practice, it has been the informal policy of the Board to approve all line-item budget changes and all budget amendments. These changes do not get reflected in an amended budget in the County's general ledger.

Context: The County Board approves amendments and grants in the Board minutes, but generally does not identify dollar amounts. The original budget is not updated in the general ledger for approved changes, so a final amended budget is not available from the system.

Effect: The original budget is not easily reconcilable to an amended final budget. The approved budget is the legal spending authority of the County. The lack of a procedure to update the general ledger with budget modifications can result in noncompliance with the authorized spending budget for a fiscal period.

Cause: The County is operating under an informal past budgeting practice. A budget policy has been drafted; however, it has not been formally approved by the County Board.

Recommendation: We recommend the Board establish a written budget policy that indicates the following:

- the level of budgetary control at which Board approval is required for any budget transfers or amendments,
- any exceptions to the general policy which would not require Board approval, and
- the budgetary basis on which the budget is adopted.

A standard budget change form could be adopted as part of the budget policy. This form would standardize the process of obtaining a budget amendment and would ensure that all budget changes and amounts are included in the accounts affected by the change. The budget should be amended for any significant changes in revenue sources or spending patterns that occur during the year.

Client's Response:

A draft of the policy has been established and this draft shall be presented to the County Board for consideration and/or approval. The County Board has appointed a committee to oversee the budget process, including budget changes made during the year. The draft of the policy will formalize the actions currently taken by this committee.

Finding 1996-026

Disaster Recovery Plan

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

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

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

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

Cause: The plan has not been updated since 1993.

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

Client's Response:

Carlton County recognizes that a Disaster Recovery Plan needs to be in place. The MIS office is actively working on the adoption of a Plan and is also working with the MCIS to insure that there is an agreement with an alternative site to provide backup in the event of a disaster. Formal disaster recovery sites are being identified and agreements shall be negotiated for such a Plan.

Finding 1998-007

Contract Change Orders

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

Condition: In a prior year, the County had an overrun of $107,475 on the Law Enforcement Center remodeling that had to be absorbed by the General Fund. Change orders on this contract had been approved by the project architects and the project manager; however, they had not been approved by the County Board.

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

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

Cause: The County lacks a formal change order policy.

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

Client's Response:

The County Board will adopt a formal policy with regard to contract and contract change orders to ensure that the County Board is aware of the change orders as they are incurred.

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

Independent Auditor's Report

Board of County Commissioners
Carlton County
Carlton, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carlton County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 22, 2016. We have issued an adverse opinion on the governmental activities financial statements because Carlton County has reported neither capital assets nor other postemployments benefits (OPEB) obligations in the Statement of Net Position and has reported neither the related depreciation nor the change in the net OPEB obligation in the Statement of Activities, as required by generally accepted accounting principles. Also, capital expenditures have not been eliminated from the Statement of Activities.

Internal Control Over Financial Reporting

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

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

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 1996-011, 2006-002, and 2008-001 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 1996-012, 1996-018, 2006-003, 2006-004, 2006-005, and 2012-002 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Carlton County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the County does not administer any tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Carlton County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*, except as described in the Schedule of Findings and Questioned Costs as items 1996-003, 1996-004, 1996-025, 2004-001, and 2008-002. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

Included in the Schedule of Findings and Questioned Costs are management practices comments. We believe these recommendations to be of benefit to the County, and they are reported for that purpose.

Carlton County's Response to Findings

Carlton County's responses to the internal control, legal compliance, and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 22, 2016

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

Independent Auditor's Report

Board of County Commissioners
Carlton County
Carlton, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Carlton County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2015. 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 with those requirements.

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, 2015.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-002 and 2015-001. Our opinion on each major federal program is not modified with respect to these matters.

Carlton County's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Carlton County's response were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001 to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-002 and 2015-001 to be significant deficiencies.

Carlton County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Carlton County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 22, 2016

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

Independent Auditor's Report

Board of County Commissioners
Carlton County
Carlton, Minnesota

We have audited the accompanying Schedule of Expenditures of Federal Awards (SEFA) of Carlton County, Minnesota, for the year ended December 31, 2015.

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, 2015, in accordance with accounting principles generally accepted in the United States of America.

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

November 22, 2016

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT D-2

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Agriculture			
Direct			
Environmental Quality Incentives Program	10.912		$ 14,049
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	16162MN004W1003	152,100
Passed Through Minnesota Department of Human Services			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	1515MN10152514	483,197
Total U.S. Department of Agriculture			**$ 649,346**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Airport Improvement Program	20.106	SP 902-54	$ 54,653
Airport Improvement Program	20.106	SP 904-35	234,910
(Total Airport Improvement Program 20.106 $289,563)			
Highway Planning and Construction	20.205	00009	168,671
Highway Planning and Construction	20.205	04228	2,105
(Total Highway Planning and Construction 20.205 $170,776)			
Total U.S. Department of Transportation			**$ 460,339**
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	H18A150029	**$ 2,492**
U.S. Department of Health and Human Services			
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board			
Universal Newborn Hearing Screening	93.251	H61MC00035	$ 950
Immunization Cooperative Agreements	93.268	H23IP000737	1,800
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	6 NUR3DD000842-05-01	21,308
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Visiting	93.505	X10MC29483	89,009
Temporary Assistance for Needy Families (TANF)	93.558	2015G996115	34,977
(Total TANF 93.558 $418,537)			
Maternal and Child Health Services Block Grant to the States	93.994	B04MC28107	39,939
Passed Through Koochiching County			
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912	D04RH23568	9,323

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

CARLTON COUNTY
CARLTON, MINNESOTA

EXHIBIT D-2
(Continued)

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Health and Human Services (Continued)			
Passed Through Fond du Lac Tribal and Community College			
Pregnancy Assistance Fund Program	93.500	SP1AH000022-01-00	28,085
Passed Through Minnesota Department of Human Services			
Guardianship Assistance	93.090	1501MNGARD	21,982
Promoting Safe and Stable Families	93.556	1401MNFPSS	5,949
Temporary Assistance for Needy Families (TANF)	93.558	1502MNTANF	383,560
(Total TANF 93.558 $418,537)			
Child Support Enforcement	93.563	1504MN4005	896,580
Refugee and Entrant Assistance - State-Administered Programs	93.566	1501MNRCMA	735
Child Care Development Block Grant	93.575	G1501MNCCDF	11,734
Community-Based Child Abuse Prevention Grants	93.590	1302MN1FRPG	14,267
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1401MNCWSS	8,187
Foster Care - Title IV-E	93.658	1501MNFOST	262,903
Adoption Assistance	93.659	1501MNGARD	56,050
Social Services Block Grant	93.667	1501MNSOSR	285,451
Chafee Foster Care Independence Program	93.674	1401MN1420	1,745
Children's Health Insurance Program	93.767	1405MN5021	130
Medical Assistance Program	93.778	1505MN5ADM	1,638,741
Total U.S. Department of Health and Human Services			**$ 3,813,405**
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012	SBG-102615	$ 3,977
Passed Through Minnesota Department of Public Safety			
Hazard Mitigation Grant	97.039	HAZMIT/DR-4069.03/01-20-15	3,239
Emergency Management Performance Grants	97.042	F-EMPG-2014-CARLTONCO-0668	24,601
Emergency Management Performance Grants	97.042	F-EMPG-2015-CARLTONCO-1073	19,898
(Total Emergency Management Performance Grants 97.042 $44,499)			
Total U.S. Department of Homeland Security			**$ 51,715**
Total Federal Awards			**$ 4,977,297**

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

CARLTON COUNTY
CARLTON, MINNESOTA

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

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Carlton County under programs of the federal government for the year ended December 31, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Carlton County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Carlton County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Carlton County has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$	5,474,026
Grants received more than 90 days after year-end, unavailable in 2015		
Airport Improvement Program		251,820
Disaster Grants - Public Assistance (Presidentially Declared Disasters)		851,078
Unavailable in 2014, recognized as revenue in 2015		
Airport Improvement Program		(270,150)
Highway Planning and Construction		(204,885)
Disaster Grants - Public Assistance (Presidentially Declared Disasters)		(1,055,450)
Adjustment for Airport Improvement Program expenditures for grant close-out		(69,142)
Expenditures Per Schedule of Expenditures of Federal Awards	$	4,977,297