

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

CARLTON COUNTY
CARLTON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2009

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 160 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 730 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**

For the Year Ended December 31, 2009



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

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**CARLTON COUNTY
CARLTON, MINNESOTA**

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CARLTON, MINNESOTA**

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**CARLTON COUNTY
CARLTON, MINNESOTA**

**ORGANIZATION
AS OF DECEMBER 31, 2009**

			<u>Term Expires</u>
Elected			
Commissioners			
Chair	Dick Brenner	District 1	January 2013
Board Member	Marv Bodie	District 2	January 2011
Board Member	Thomas Proulx	District 3	January 2013
Board Member	Gordon Aanerud	District 4	January 2011
Board Member	Ted Pihlman	District 5	January 2013
Attorney	Thomas H. Pertler		January 2011
Auditor/Treasurer	Paul Gassert		January 2011
Coroner	Richard Puumala, M.D.		January 2011
Sheriff	Kelly Lake		January 2011
Appointed			
Assessor	Marci Moreland		January 2013
Recorder	Kristine Basilici		January 2011
Registrar of Titles	Kristine Basilici		January 2011
Highway Engineer	Wayne Olson		May 2013
Veteran Services Officer	Duane Brownie		January 2010
Surveyor	William Hayden		December 2010

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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

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, 2009, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Carlton County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

Also, as discussed in Note 1.D.7. to the financial statements, Carlton County has not reported its other postemployment benefits (OPEB) liability in the governmental activities and, accordingly, has not reported the change to 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 service and are part of the compensation that employers offer for services received, and the annual OPEB cost be accrued as liabilities and expenses as the employees earn the right to the benefits. Accruing OPEB costs would increase liabilities, reduce net assets, and change the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matters discussed in the two preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of Carlton County as of December 31, 2009, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above 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, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Carlton County's basic financial statements. The supplementary information and other schedule listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2010, 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* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

November 17, 2010

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**CARLTON COUNTY
CARLTON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009
(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, 2009. 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 assets are \$17,481,469, of which \$5,936,447 is restricted for specific purposes.
- Carlton County's governmental activities' net assets increased by \$975,209 for the year ended December 31, 2009.
- The net cost of governmental activities was \$21,244,050 for the current fiscal year. The net cost was funded by general revenues totaling \$22,219,259.
- Governmental funds' fund balances decreased by \$111,942.
- 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 Assets 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 Assets and the Statement of Activities

The Statement of Net Assets 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 assets and changes in them. You can think of the County's net assets--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 assets 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 Assets 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 Assets 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 Assets. 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 assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities.

Table 1
Net Assets
(in Thousands)

	<u>2009</u>	<u>2008</u>
Assets	<u>\$ 28,967</u>	<u>\$ 28,968</u>
Long-term debt outstanding	\$ 8,858	\$ 9,328
Other liabilities	<u>2,628</u>	<u>3,134</u>
Total Liabilities	<u>\$ 11,486</u>	<u>\$ 12,462</u>
Net Assets		
Restricted	\$ 5,936	\$ 5,346
Unrestricted	<u>11,545</u>	<u>11,160</u>
Total Net Assets	<u>\$ 17,481</u>	<u>\$ 16,506</u>

Table 2
Changes in Net Assets
(in Thousands)

	<u>2009</u>	<u>2008</u>
Revenues		
Program revenues		
Fees, fines, charges, and other	\$ 5,545	\$ 5,834
Operating grants and contributions	14,012	10,770
Capital grants and contributions	997	2,590
General revenues		
Property taxes	17,412	16,404
Other taxes	273	242
Grants and contributions	3,941	3,684
Other general revenues	<u>593</u>	<u>970</u>
Total Revenues	<u>\$ 42,773</u>	<u>\$ 40,494</u>
Expenses		
Program expenses		
General government	\$ 6,224	\$ 6,390
Public safety	6,897	6,458
Culture and recreation	537	604
Highways and streets	9,116	8,893
Human services	12,803	12,325
Health	2,714	2,415
Sanitation	1,223	1,126
Conservation of natural resources	981	1,061
Economic development	1,041	620
Interest	<u>262</u>	<u>289</u>
Total Expenses	<u>\$ 41,798</u>	<u>\$ 40,181</u>
Increase (Decrease) in Net Assets	\$ 975	\$ 313
Net Assets, January 1	<u>16,506</u>	<u>16,193</u>
Net Assets, December 31	<u>\$ 17,481</u>	<u>\$ 16,506</u>

Governmental Activities

The cost of all governmental activities this year was \$41,798,453. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$17,412,153, because some of the cost was paid by those who directly benefited from the programs (\$5,545,162) or by other governments and organizations that subsidized certain programs with grants and contributions (\$15,009,241).

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	
	2009	2008	2009	2008
General government	\$ 6,224	\$ 6,390	\$ 4,745	\$ 4,739
Public safety	6,897	6,458	6,260	5,879
Highways and streets	9,116	8,893	3,694	3,982
Human services	12,803	12,325	5,131	4,871
Health	2,714	2,415	526	676
All others	4,044	3,700	888	841
Totals	<u>\$ 41,798</u>	<u>\$ 40,181</u>	<u>\$ 21,244</u>	<u>\$ 20,988</u>

THE COUNTY’S FUNDS

As the County completed the year, its governmental funds reported a combined fund balance of \$22,738,146, which is less than last year’s total of \$22,850,088. Included in this year’s total fund balance is a surplus of \$13,660,849 in the County’s General Fund. The overall decrease in the governmental funds was due to a decrease for funds reserved for highways and in undesignated funds in the Road and Bridge Special Revenue Fund, a decrease in undesignated funds for the Human Services Special Revenue Fund, and an increase in undesignated funds in the County’s General Fund and unreserved funds in the Debt Service Fund.

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) for the County’s General Fund were less than the final budget by \$21,876. The largest variances were in general government and culture and recreation.

On the other hand, resources available for appropriation exceeded the final budget for the County’s General Fund by \$251,400. Collections were greater than expected in intergovernmental revenues and charges for services.

Fund balance was anticipated to increase by \$198,396. Actual fund balance increased by \$528,636 due to net excess collections.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2009, 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 during the next several months, and a record-keeping system will be established.

Debt

At year-end, the County had \$6,040,000 outstanding in general obligation bonds backed by the County, versus \$6,470,000 last year.

The County did not issue bonds during 2009. Principal and interest payments on all bonds and notes will not exceed the amount allowed by Minn. Stat. § 373.40.

Other obligations include a contract for deed, loans payable, and 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 2010 budget and tax levy:

- bonding \$9,750,000 for the construction of a Community Services Center in the City of Cloquet to begin in the fall of 2010;
- projected unallotment of \$506,120 in County Program Aid;
- projected decrease of \$550,000 in Public Health and Human Services Aid;
- anticipated County cost match of \$170,000 for Courthouse elevator replacement to meet Americans With Disabilities Act requirements;
- eliminated 8.8 full-time equivalent positions from Courthouse, Road and Bridge, and Public Health and Human Services; and
- property tax levies have increased 3.5 percent for 2010.

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.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2009**

Assets

Cash and pooled investments	\$ 19,641,917
Receivables - net	7,435,197
Inventories	982,070
Prepaid items	838,515
Deferred charges	69,705
	<hr/>
Total Assets	\$ 28,967,404

Liabilities

Accounts payable and other current liabilities	\$ 2,165,947
Accrued interest payable	58,748
Unearned revenue	403,642
Long-term liabilities	
Due within one year	593,778
Due in more than one year	8,263,820
	<hr/>
Total Liabilities	\$ 11,485,935

Net Assets

Restricted for	
General government	\$ 471,628
Public safety	45,859
Highways and streets	2,562,757
Sanitation	35,473
Conservation of natural resources	322,286
Economic development	2,498,444
Unrestricted	11,545,022
	<hr/>
Total Net Assets	\$ 17,481,469

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Functions/Programs					
Governmental activities					
General government	\$ 6,223,633	\$ 927,876	\$ 550,383	\$ -	\$ (4,745,374)
Public safety	6,897,003	302,893	307,011	27,444	(6,259,655)
Highways and streets	9,116,493	732,422	3,892,553	798,060	(3,693,458)
Sanitation	1,222,879	777,387	573,871	-	128,379
Human services	12,802,594	659,880	7,011,373	-	(5,131,341)
Health	2,714,102	1,241,473	946,321	-	(526,308)
Culture and recreation	536,999	86,361	219,007	-	(231,631)
Conservation of natural resources	981,348	624,870	38,664	-	(317,814)
Economic development	1,041,511	192,000	472,831	171,723	(204,957)
Interest	261,891	-	-	-	(261,891)
Total Governmental Activities	\$ 41,798,453	\$ 5,545,162	\$ 14,012,014	\$ 997,227	\$ (21,244,050)
General Revenues					
Property taxes				\$ 17,412,153	
Mortgage registry and deed tax				26,968	
Payments in lieu of tax				245,991	
Grants and contributions not restricted to specific programs				3,941,482	
Unrestricted investment earnings				272,799	
Sale of assets				73,125	
Miscellaneous				246,741	
Total general revenues				\$ 22,219,259	
Change in net assets					\$ 975,209
Net Assets - Beginning					16,506,260
Net Assets - Ending					\$ 17,481,469

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 10,905,086	\$ 2,186,450	\$ 5,063,131	\$ 1,481,700	\$ 19,636,367
Petty cash and change funds	1,600	-	3,950	-	5,550
Taxes receivable					
Delinquent	519,789	140,965	235,860	50,794	947,408
Special assessments receivable					
Delinquent	44,071	-	-	-	44,071
Accounts receivable	77,417	2,954	166,267	420,119	666,757
Accrued interest receivable	55,662	-	-	-	55,662
Due from other funds	171,634	70,533	-	-	242,167
Due from other governments	398,626	2,273,383	1,094,083	-	3,766,092
Inventories	-	982,070	-	-	982,070
Prepaid items	838,515	-	-	-	838,515
Loans receivable	1,855,207	-	-	-	1,855,207
Deposits receivable	100,000	-	-	-	100,000
Total Assets	<u>\$ 14,967,607</u>	<u>\$ 5,656,355</u>	<u>\$ 6,563,291</u>	<u>\$ 1,952,613</u>	<u>\$ 29,139,866</u>

**CARLTON COUNTY
CARLTON, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 162,142	\$ 116,171	\$ 388,780	\$ 548	\$ 667,641
Salaries payable	285,412	111,440	243,371	5,712	645,935
Contracts payable	12,755	163,570	-	-	176,325
Due to other funds	35,392	-	72	206,703	242,167
Due to other governments	77,548	-	561,838	36,660	676,046
Deferred revenue - unavailable	691,407	2,316,822	213,188	368,547	3,589,964
Deferred revenue - unearned	42,102	264,947	96,593	-	403,642
Total Liabilities	\$ 1,306,758	\$ 2,972,950	\$ 1,503,842	\$ 618,170	\$ 6,401,720
Fund Balances					
Reserved for					
Inventories	\$ -	\$ 982,070	\$ -	\$ -	982,070
Economic development	578,710	-	-	-	578,710
Election equipment	22,318	-	-	-	22,318
Loans receivable	1,885,207	-	-	-	1,885,207
Prepaid items	838,515	-	-	-	838,515
Missing heirs	26,691	-	-	-	26,691
Law library	35,348	-	-	-	35,348
Recorder's equipment	258,835	-	-	-	258,835
Recorder's compliance	67,638	-	-	-	67,638
Sheriff's contingency	4,133	-	-	-	4,133
Sheriff's gun permit fee	33,550	-	-	-	33,550
Sheriff's forfeited property	8,176	-	-	-	8,176
Attorney's forfeited property	60,798	-	-	-	60,798
Highways	-	600,773	-	-	600,773
Timber development	322,286	-	-	-	322,286
Deposits receivable	100,000	-	-	-	100,000
Town roads	-	138,636	-	-	138,636
Unreserved					
Designated for petty cash funds	1,600	-	-	-	1,600
Undesignated	9,417,044	961,926	5,059,449	-	15,438,419
Unreserved, reported in nonmajor					
Special revenue fund	-	-	-	63,951	63,951
Debt service fund	-	-	-	1,270,492	1,270,492
Total Fund Balances	\$ 13,660,849	\$ 2,683,405	\$ 5,059,449	\$ 1,334,443	\$ 22,738,146
Total Liabilities and Fund Balances	\$ 14,967,607	\$ 5,656,355	\$ 6,563,291	\$ 1,952,613	\$ 29,139,866

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2009**

Fund balances - total governmental funds (Exhibit 3)	\$ 22,738,146
Amounts reported for governmental activities in the statement of net assets are different because:	
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	3,589,964
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	\$ (6,021,217)
Contract for deed	(125,000)
Loans payable	(112,982)
Accrued interest payable	(58,748)
Compensated absences	(2,598,399)
Deferred debt issuance charges	69,705
	<u>(8,846,641)</u>
Net Assets of Governmental Activities (Exhibit 1)	<u><u>\$ 17,481,469</u></u>

**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues					
Taxes	\$ 9,525,218	\$ 2,523,162	\$ 4,260,355	\$ 971,145	\$ 17,279,880
Special assessments	471,493	-	-	-	471,493
Licenses and permits	96,568	-	-	-	96,568
Intergovernmental	4,081,929	4,712,096	9,257,851	115,761	18,167,637
Charges for services	2,059,326	336,495	220,280	-	2,616,101
Fines and forfeits	46,593	-	-	-	46,593
Gifts and contributions	32,342	-	4,420	-	36,762
Investment income	256,667	16,132	-	-	272,799
Miscellaneous	493,243	477,839	1,681,073	444,897	3,097,052
Total Revenues	\$ 17,063,379	\$ 8,065,724	\$ 15,423,979	\$ 1,531,803	\$ 42,084,885
Expenditures					
Current					
General government	\$ 6,184,697	\$ -	\$ -	\$ 36,660	\$ 6,221,357
Public safety	6,856,065	-	-	-	6,856,065
Highways and streets	-	9,201,038	-	-	9,201,038
Sanitation	1,222,879	-	-	-	1,222,879
Human services	-	-	12,211,061	-	12,211,061
Health	-	-	2,714,102	-	2,714,102
Culture and recreation	536,999	-	-	-	536,999
Conservation of natural resources	651,993	-	-	324,431	976,424
Economic development	1,041,511	-	-	-	1,041,511
Capital outlay	-	-	568,145	-	568,145
Debt service					
Principal	131,313	-	-	430,000	561,313
Interest	11,250	-	-	248,860	260,110
Administrative charge	-	-	-	1,562	1,562
Total Expenditures	\$ 16,636,707	\$ 9,201,038	\$ 15,493,308	\$ 1,041,513	\$ 42,372,566

**CARLTON COUNTY
CARLTON, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Excess of Revenues Over (Under)					
Expenditures	\$ 426,672	\$ (1,135,314)	\$ (69,329)	\$ 490,290	\$ (287,681)
Other Financing Sources (Uses)					
Transfers in	\$ 96,634	\$ 55,643	\$ 12,152	\$ -	\$ 164,429
Transfers out	(67,795)	-	-	(96,634)	(164,429)
Proceeds from sale of assets	73,125	-	-	-	73,125
Total Other Financing Sources (Uses)	\$ 101,964	\$ 55,643	\$ 12,152	\$ (96,634)	\$ 73,125
Net Change in Fund Balance	\$ 528,636	\$ (1,079,671)	\$ (57,177)	\$ 393,656	\$ (214,556)
Fund Balance - January 1	13,132,213	3,660,462	5,116,626	940,787	22,850,088
Increase (decrease) in reserved for inventories	-	102,614	-	-	102,614
Fund Balance - December 31	\$ 13,660,849	\$ 2,683,405	\$ 5,059,449	\$ 1,334,443	\$ 22,738,146

**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, 2009**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (214,556)

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

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

Deferred revenue - December 31	\$ 3,589,964	
Deferred revenue - January 1	<u>(2,974,312)</u>	615,652

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal repayments		
General obligation bonds	\$ 430,000	
Contract for deed	100,000	
Loans payable	<u>31,313</u>	561,313

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	\$ 7,125	
Change in compensated absences	(89,595)	
Amortization of deferred issuance charges	(5,652)	
Amortization of bond discounts	(1,692)	
Change in inventories	<u>102,614</u>	<u>12,800</u>

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 975,209

FIDUCIARY FUNDS

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**CARLTON COUNTY
CARLTON, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2009**

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 1,268,855</u>
<u>Liabilities</u>	
Accounts payable	\$ 164,032
Salaries payable	2,207
Due to other governments	<u>1,102,616</u>
Total Liabilities	<u>\$ 1,268,855</u>

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**CARLTON COUNTY
CARLTON, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009**

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, 2009. 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.7. 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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets 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 assets, the governmental activities are presented on a consolidated basis by column 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.7.

The County's net assets are reported in two parts: (1) restricted net assets and (2) unrestricted net assets. 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.7.

**CARLTON COUNTY
CARLTON, MINNESOTA**

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 required to be 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.

Additionally, the County reports the following fiduciary fund type:

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

C. Measurement Focus and Basis of Accounting

The government-wide 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

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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, and Net Assets 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, 2009, 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 2009 were \$272,799.

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 MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

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.

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 Board. The funds used for the septic system repair loans came from the Minnesota Department of Agriculture and the County.

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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Inventories and Prepaid Items (Continued)

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 assets. 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. Compensated Absences

The liability for compensated absences reported in 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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

6. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period. Governmental funds and governmental activities also defer revenue recognition in connection with resources that have been received, but not yet earned.

7. 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 assets. Bond premiums and discounts, as well as issuance costs, 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 reported as deferred charges and amortized over the term of the related debt.

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 assets. 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.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans subject to change.

**CARLTON COUNTY
CARLTON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

9. 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.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget for the year ended December 31, 2009:

	Budget	Expenditures	Excess
Special Revenue Funds			
Road and Bridge	\$ 8,451,103	\$ 9,201,038	\$ 749,935
Human Services	15,110,646	15,493,308	382,662
Forfeited Tax	307,650	361,091	53,441

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 assets	
Governmental activities	
Cash and pooled investments	\$ 19,641,917
Statement of fiduciary net assets	
Cash and pooled investments	1,268,855
Total Cash and Investments	\$ 20,910,772

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County's policy is to maintain adequate collateral for all deposits. As of December 31, 2009, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in 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. Of the County's investments at December 31, 2009, \$2,564,669 was held by the counterparty, or by its trust department or agent, but not in the County's name.

Concentration of Credit Risk

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

This table represents the County's deposit and investment balances at December 31, 2009, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Federal Home Loan Bank Note	AAA	Moody's/S&P		07/30/2012	\$ 100,094
Federal Home Loan Bank Note	AAA	Moody's/S&P		11/07/2014	200,313
Total Federal Home Loan Bank Notes			<5%		\$ 300,407

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Federal National Mortgage Association	AAA	S&P	<5%	10/01/2025	\$ 6,677
Federal Home Loan Mortgage Corporation Note	AAA	Moody's/S&P		12/24/2012	\$ 99,892
Federal Home Loan Mortgage Corporation Note	AAA	S&P		02/01/2028	6,427
Total Federal Home Loan Mortgage Corporation Notes			<5%		\$ 106,319
Negotiable certificates of deposit					
Nexity Bank	N/A	N/A	<5%	02/08/2010	\$ 96,369
Advanta Bank Corp	N/A	N/A	<5%	02/22/2010	96,427
Hanmi Bank	N/A	N/A	<5%	03/10/2010	96,544
Bank of America	N/A	N/A	<5%	03/11/2010	97,245
CIT Bank	N/A	N/A	<5%	04/29/2010	97,124
Hinsdale Bank & Trust	N/A	N/A	<5%	05/07/2010	97,202
Homestreet Bank	N/A	N/A	<5%	05/27/2010	97,371
Sterling Savings Bank	N/A	N/A	<5%	06/11/2010	97,484
M&I Bank	N/A	N/A	<5%	07/16/2010	97,719
Southwest Bank	N/A	N/A	<5%	07/16/2010	97,720
Great Southern Bank	N/A	N/A	<5%	08/16/2010	97,930
BMW Bank of North America	N/A	N/A	<5%	09/17/2010	98,032
Morgan Stanley Bank	N/A	N/A	<5%	10/08/2010	98,251
American Express Bank	N/A	N/A	<5%	11/12/2010	98,448
Integra Bank National Association	N/A	N/A	<5%	11/15/2010	98,464
Capital One Bank USA NA	N/A	N/A	<5%	11/26/2010	98,514
Capital One NA	N/A	N/A	<5%	11/26/2010	98,514
Sovereign Bank FSB	N/A	N/A	<5%	11/26/2010	98,521
Branch Banking	N/A	N/A	<5%	03/11/2011	98,228
Pacific Capital Bank	N/A	N/A	<5%	03/14/2011	98,994
Shinhan Bank America	N/A	N/A	<5%	04/25/2011	100,880
Midfirst Bank	N/A	N/A	<5%	05/13/2011	97,874
Carolina First Bank	N/A	N/A	<5%	05/31/2011	96,951
GE Capital Financial	N/A	N/A	<5%	05/31/2011	98,097
Sallie Mae Bank	N/A	N/A	<5%	06/03/2011	101,320
Park Midway Bank	N/A	N/A	<5%	06/13/2011	100,629
GE Money Bank	N/A	N/A	<5%	07/22/2011	100,414
Total negotiable certificates of deposit					\$ 2,651,266
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	54.99%	N/A	\$ 3,744,064
Total investments					\$ 6,808,733
Deposits					14,096,489
Petty cash					5,550
Total Cash and Investments					\$ 20,910,772

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2009, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 947,408	\$ -
Special assessments	44,071	-
Due from other governments	3,766,092	-
Accounts	666,757	-
Interest	55,662	-
Loans receivable	1,855,207	1,712,774
Deposits receivable	100,000	100,000
Total Governmental Activities	\$ 7,435,197	\$ 1,812,774

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2009, is as follows:

Receivable Fund	Payable Fund	Amount	Purpose
General	Forfeited Tax	\$ 171,634	Forfeited tax apportionment and payment of fees
Road and Bridge	General	\$ 35,392	Reimburse supplies and services
	Human Services	72	Reimburse supplies and services
	Forfeited Tax	35,069	Reimburse Soo Line Trail expenditures
Total due to Road and Bridge Fund		\$ 70,533	
Total Due To/From Other Funds		\$ 242,167	

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2009, consisted of the following:

Transfers to General Fund from Forfeited Tax Fund	\$ 96,634	Distribute net proceeds
Transfers to Road and Bridge Fund from General Fund	55,643	Parking lot expenditures
Transfers to Human Services Fund from General Fund	12,152	Repay Title IV-D
Total Interfund Transfers	\$ 164,429	

C. Liabilities

1. Payables

Payables at December 31, 2009, were as follows:

	Governmental Activities
Accounts	\$ 667,641
Salaries	645,935
Contracts	176,325
Due to other governments	676,046
Total Payables	\$ 2,165,947

2. Other Postemployment Benefits - Retirees

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

As of year-end, the County has 48 eligible participants. The County finances the plan on a pay-as-you-go basis. Premiums are charged to the departments from which the employee retired. During 2009, the County expended \$415,903 for these benefits.

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Bonds Payable

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

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2009
General obligation bonds					
G.O. Capital Improvement Bonds	2013	\$195,000 - \$205,000	3.70 - 4.60	\$ 650,000	\$ 235,000
2002 G.O. Refunding Bonds	2011	\$195,000 - \$205,000	1.60 - 3.45	1,510,000	205,000
2003 G.O. Capital Improvement Bonds	2023	\$60,000 - \$290,000	1.50 - 4.35	3,900,000	3,185,000
2006 G.O. Capital Improvement Bonds	2021	\$130,000 - \$305,000	3.45 - 4.00	3,000,000	2,415,000
Total General Obligation Bonds				<u>\$ 9,060,000</u>	<u>\$ 6,040,000</u>

Loans Payable

In 2003, the County entered into a loan agreement with the State of Minnesota to finance tee hangars at the Cloquet and Moose Lake airports. Payments will be made from the General Fund. The loans are interest-free.

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2009
2003 tee hangar loan - Cloquet	2013	\$1,834/month	0.00	\$ 220,082	\$ 78,864
2003 tee hangar loan - Moose Lake	2013	\$775/month	0.00	93,050	34,118
Total Loans Payable				<u>\$ 313,132</u>	<u>\$ 112,982</u>

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Contract for Deed

In 2005, the County entered into a contract for deed with a private party for financing of a land purchase. Payments will be made from the General Fund.

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2009
2005 Contract for Deed	2011	\$25,000 - \$100,000	5.00	\$ 525,000	\$ 125,000

4. Debt Service Requirements

Debt service requirements at December 31, 2009, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		Loans	
	Principal	Interest	Principal	Interest
2010	\$ 455,000	\$ 233,789	\$ 31,313	\$ -
2011	265,000	216,861	31,313	-
2012	400,000	204,034	31,313	-
2013	345,000	188,174	19,043	-
2014	435,000	173,849	-	-
2015 - 2019	2,445,000	603,461	-	-
2020 - 2023	1,695,000	121,167	-	-
Total	\$ 6,040,000	\$ 1,741,335	\$ 112,982	\$ -

Year Ending December 31	Contract for Deed	
	Principal	Interest
2010	\$ 100,000	\$ 6,250
2011	25,000	1,250
Total	\$ 125,000	\$ 7,500

**CARLTON COUNTY
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance December 31, 2009	Due Within One Year
Bonds payable					
General obligation bonds	\$ 6,470,000	\$ -	\$ 430,000	\$ 6,040,000	\$ 455,000
Bond discount	(20,475)	-	(1,692)	(18,783)	-
Loans payable	144,295	-	31,313	112,982	31,313
Contract for deed	225,000	-	100,000	125,000	100,000
Compensated absences	2,508,804	89,595	-	2,598,399	7,465
Governmental Activity Long-Term Liabilities	<u>\$ 9,327,624</u>	<u>\$ 89,595</u>	<u>\$ 559,621</u>	<u>\$ 8,857,598</u>	<u>\$ 593,778</u>

4. Pension Plans

A. Defined Benefit Plans

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 Public 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.

Public 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. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint

**CARLTON COUNTY
CARLTON, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement 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 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 year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive 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.

For all Public Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

**CARLTON COUNTY
CARLTON, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

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. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.00 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.40 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2009:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.75
Public Employees Police and Fire Fund	14.10
Public Employees Correctional Fund	8.75

**CARLTON COUNTY
CARLTON, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2009, 2008, and 2007, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Public Employees Retirement Fund	\$ 907,995	\$ 791,717	\$ 738,918
Public Employees Police and Fire Fund	221,356	175,464	150,658
Public Employees Correctional Fund	65,048	61,596	58,654

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

B. Defined Contribution Plan

Two 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. Employees may elect to make member contributions in an amount not to exceed the employer share. 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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

4. Pension Plans

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2009, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,381	\$ 2,381
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

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 employee's bargaining agreement.

**CARLTON COUNTY
CARLTON, MINNESOTA**

5. Postemployment Health Care (Continued)

B. Northland VEBA Trust Plan

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

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

Eligibility requirements include:

- be an active employee or retiree of a public entity;
- 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), formerly the Minnesota Counties Insurance Trust. 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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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 \$430,000 per claim in 2009 and \$450,000 per claim in 2010. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

The County belongs to 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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

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

C. Conduit Debt

In 2005, the County entered into a joint powers agreement with the City of Cloquet to jointly issue \$9,930,000 in revenue bonds to provide financial assistance to Housing Alternatives Development Company (HADC), a nonprofit corporation, for the construction of a senior assisted living facility. The bonds are secured by the property financed and are payable solely from the revenues of HADC. Neither the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2009, the outstanding principal balance was \$9,475,000.

D. Joint Ventures

Arrowhead Regional Corrections

The County, in a joint powers agreement pursuant to Minn. Stat. § 471.59, participates with Cook, Koochiching, Lake, and St. Louis Counties in 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 from its Board. In addition, the right to have an additional member is annually rotated among Carlton, Cook, Koochiching, and Lake Counties.

**CARLTON COUNTY
CARLTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Arrowhead Regional Corrections (Continued)

Arrowhead Regional Corrections is financed through state grants and contributions from the participating counties. During 2008 (the most recent information available), County contributions were in the following proportion:

	<u>Percent (%)</u>
Carlton County	10.48
Cook County	1.61
Koochiching County	1.98
Lake County	2.11
St. Louis County	<u>83.82</u>
Total	<u><u>100.00%</u></u>

Below is a summary of the financial information from Arrowhead Regional Corrections' government-wide financial statements as of December 31, 2008 (the most recent audited figures available):

Total Assets	\$ 13,531,737
Total Liabilities	5,588,087
Total Net Assets	7,943,650
Total Revenues	21,617,817
Total Expenses	21,076,113
Change in Net Assets	541,704

Carlton County provided \$1,386,386 in funding during 2009. Separate financial information can be obtained from:

Arrowhead Regional Corrections
320 West 2nd Street
Suite 113
Duluth, Minnesota 55802

**CARLTON COUNTY
CARLTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Carlton County Children and Family Service Collaborative

The Carlton County Children and Family Service Collaborative was established pursuant to Minn. Stat. § 124D.23. The Collaborative includes Carlton County; the Independent School Districts of Barnum, Carlton, Cloquet, Cromwell, Esko, Moose Lake, and Wrenshall; 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.

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, 2009, 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 2009.

**CARLTON COUNTY
CARLTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

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

At December 31, 2009, the Community Health Board's summary of financial information was:

Total Assets	\$	1,139,568
Total Liabilities		981,637
Total Net Assets		157,931
Total Revenues		4,242,424
Total Expenses		4,209,848
Change in Net Assets		32,576

Separate financial information can be obtained from:

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

Northeast Minnesota Office of Job Training

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

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

**CARLTON COUNTY
CARLTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

A summary of the financial information of the Northeast Minnesota Office of Job Training's government-wide statements for June 30, 2009, was:

Total Assets	\$ 3,038,740
Total Liabilities	1,650,067
Total Net Assets	1,388,673
Total Revenues	5,598,127
Total Expenses	5,589,058
Change in Net Assets	9,069

Separate financial information can be obtained from:

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

Minnesota Counties Information Systems

The Counties of Aitkin, Carlton, Cass, Chippewa, Cook, Crow Wing, Dodge, Itasca, Koochiching, Lac qui Parle, Lake, Sherburne, and St. Louis entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, creating and operating Minnesota Counties Information Systems (MCIS). MCIS operates and maintains data processing facilities and management information systems for the benefit of members of this agreement.

MCIS is governed by a 13-member Board. Each participating county appoints a member. 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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Minnesota Counties Information Systems (Continued)

A summary of the financial information of MCIS at December 31, 2008 (the most recent information available), was:

Total Assets	\$ 1,007,784
Total Liabilities	256,583
Total Net Assets	751,201
Total Revenues	2,534,122
Total Expenses	2,365,437
Change in Net Assets	168,685

Separate financial information can be obtained from:

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

Minnesota Community Capital Fund

The County is a Class A member of the Minnesota Community Capital Fund (MCCF). The MCCF was established to address unmet development financing needs of communities and economic development organizations throughout greater Minnesota by pooling local revolving loan fund resources and providing professional management services to support local efforts. The MCCF is designed to provide its members with greater lending flexibility and the capacity to originate multiple loans that are much larger than would be possible with limited local resources.

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.

**CARLTON COUNTY
CARLTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Arrowhead Health Alliance (Continued)

Control of the Arrowhead Health Alliance is vested in a Board of Directors composed of one representative from each of the member counties. 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 2009.

Northeast Minnesota Regional Radio Board

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

The joint powers are the Counties of Aitkin, Carlton, Cass, Cook, Crow Wing, Itasca, Kanabec, Koochiching, Lake, Pine, and St. Louis and the Cities of Duluth, Hibbing, International Falls and Virginia. Control of the Northeast Minnesota Regional Radio Board is vested in a Board of Directors composed of one county commissioner from each of the member counties and one city councilor 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 \$645 in funding in 2009.

**CARLTON COUNTY
CARLTON, MINNESOTA**

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

E. Tax-Forfeited Land

The County manages approximately 72,300 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 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 Economic Development Authority bylaws were adopted on February 9, 2010, and the Authority's Board was appointed on March 9, 2010.

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REQUIRED SUPPLEMENTARY INFORMATION

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**CARLTON COUNTY
CARLTON, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 9,474,122	\$ 9,474,122	\$ 9,525,218	\$ 51,096
Special assessments	480,000	480,000	471,493	(8,507)
Licenses and permits	106,075	106,075	96,568	(9,507)
Intergovernmental	3,829,252	3,829,252	4,081,929	252,677
Charges for services	1,887,917	1,887,917	2,059,326	171,409
Fines and forfeits	37,500	37,500	46,593	9,093
Gifts and contributions	7,550	7,550	32,342	24,792
Investment income	635,000	635,000	256,667	(378,333)
Miscellaneous	354,563	354,563	493,243	138,680
Total Revenues	\$ 16,811,979	\$ 16,811,979	\$ 17,063,379	\$ 251,400
Expenditures				
Current				
General government				
Commissioners	\$ 266,480	\$ 266,480	\$ 237,548	\$ 28,932
Courts	89,260	89,260	91,668	(2,408)
Law library	32,153	32,153	26,134	6,019
County auditor	914,710	914,710	786,906	127,804
License bureau	285,926	285,926	290,565	(4,639)
County assessor	806,045	806,045	816,144	(10,099)
Data processing	846,765	846,765	812,348	34,417
Personnel	159,346	159,346	167,318	(7,972)
Attorney	1,020,794	1,020,794	996,678	24,116
Recorder	544,110	544,110	520,565	23,545
Surveyor	15,000	15,000	15,000	-
Planning and zoning	378,762	378,762	369,472	9,290
Maintenance	757,573	757,573	776,644	(19,071)
Veterans service officer	278,201	278,201	277,707	494
Total general government	\$ 6,395,125	\$ 6,395,125	\$ 6,184,697	\$ 210,428

**CARLTON COUNTY
CARLTON, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 2,672,864	\$ 2,672,864	\$ 2,723,259	\$ (50,395)
Snowmobile safety	5,000	5,000	6,772	(1,772)
Boat and water safety	10,000	10,000	8,621	1,379
Ambulance	77,559	77,559	77,559	-
Animal control	6,180	6,180	6,180	-
Coroner	47,458	47,458	60,286	(12,828)
E-911	795,516	795,516	781,522	13,994
County jail	1,751,234	1,751,234	1,710,107	41,127
Community corrections	1,386,386	1,386,386	1,386,386	-
Court services	74,924	74,924	60,242	14,682
Civil defense	41,056	41,056	35,131	5,925
Total public safety	\$ 6,868,177	\$ 6,868,177	\$ 6,856,065	\$ 12,112
Sanitation				
Solid waste	\$ 1,086,268	\$ 1,086,268	\$ 1,038,034	\$ 48,234
Recycling	179,218	179,218	184,845	(5,627)
Total sanitation	\$ 1,265,486	\$ 1,265,486	\$ 1,222,879	\$ 42,607
Culture and recreation				
Historical society	\$ 41,200	\$ 41,200	\$ 41,200	\$ -
County fair	36,750	36,750	40,200	(3,450)
Parks	82,074	82,074	70,436	11,638
Regional library	166,156	166,156	166,156	-
Trails	-	-	219,007	(219,007)
Total culture and recreation	\$ 326,180	\$ 326,180	\$ 536,999	\$ (210,819)
Conservation of natural resources				
County extension	\$ 407,687	\$ 407,687	\$ 448,283	\$ (40,596)
Soil and water conservation	99,910	99,910	99,910	-
Weed inspector	6,633	6,633	5,587	1,046
Forestry assistance	9,000	9,000	6,678	2,322
Timber development	10,000	10,000	1,794	8,206
Resource development	41,000	41,000	11,465	29,535
Water planning	79,707	79,707	78,276	1,431
Total conservation of natural resources	\$ 653,937	\$ 653,937	\$ 651,993	\$ 1,944

**CARLTON COUNTY
CARLTON, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Airport commission	\$ 667,096	\$ 667,096	\$ 378,798	\$ 288,298
Rail authority	8,000	8,000	107	7,893
Small cities grant	-	-	394,449	(394,449)
Arrowhead Regional Development	42,520	42,520	100	42,420
Iron Range Resources	432,062	432,062	268,057	164,005
Total economic development	\$ 1,149,678	\$ 1,149,678	\$ 1,041,511	\$ 108,167
Debt service				
Principal	\$ -	\$ -	\$ 131,313	\$ (131,313)
Interest	-	-	11,250	(11,250)
Total debt service	\$ -	\$ -	\$ 142,563	\$ (142,563)
Total Expenditures	\$ 16,658,583	\$ 16,658,583	\$ 16,636,707	\$ 21,876
Excess of Revenues Over (Under) Expenditures	\$ 153,396	\$ 153,396	\$ 426,672	\$ 273,276
Other Financing Sources (Uses)				
Transfers in	\$ 45,000	\$ 45,000	\$ 96,634	\$ 51,634
Transfers out	-	-	(67,795)	(67,795)
Proceeds from sale of assets	-	-	73,125	73,125
Total Other Financing Sources (Uses)	\$ 45,000	\$ 45,000	\$ 101,964	\$ 56,964
Net Change in Fund Balance	\$ 198,396	\$ 198,396	\$ 528,636	\$ 330,240
Fund Balance - January 1	13,132,213	13,132,213	13,132,213	-
Fund Balance - December 31	\$ 13,330,609	\$ 13,330,609	\$ 13,660,849	\$ 330,240

**CARLTON COUNTY
CARLTON, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,512,119	\$ 2,512,119	\$ 2,523,162	\$ 11,043
Intergovernmental	4,953,343	4,953,343	4,712,096	(241,247)
Charges for services	471,500	471,500	336,495	(135,005)
Investment income	-	-	16,132	16,132
Miscellaneous	468,923	468,923	477,839	8,916
Total Revenues	\$ 8,405,885	\$ 8,405,885	\$ 8,065,724	\$ (340,161)
Expenditures				
Current				
Highways and streets				
Administration	\$ 456,987	\$ 456,987	\$ 693,247	\$ (236,260)
Maintenance	2,410,239	2,410,239	2,786,327	(376,088)
Construction	4,008,100	4,008,100	4,382,290	(374,190)
Equipment maintenance and shop	1,575,777	1,575,777	1,339,174	236,603
Total Expenditures	\$ 8,451,103	\$ 8,451,103	\$ 9,201,038	\$ (749,935)
Excess of Revenues Over (Under) Expenditures	\$ (45,218)	\$ (45,218)	\$ (1,135,314)	\$ (1,090,096)
Other Financing Sources (Uses)				
Transfers in	-	-	55,643	55,643
Net Change in Fund Balance	\$ (45,218)	\$ (45,218)	\$ (1,079,671)	\$ (1,034,453)
Fund Balance - January 1	3,660,462	3,660,462	3,660,462	-
Increase (decrease) in reserved for inventories	-	-	102,614	102,614
Fund Balance - December 31	\$ 3,615,244	\$ 3,615,244	\$ 2,683,405	\$ (931,839)

**CARLTON COUNTY
CARLTON, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 4,294,392	\$ 4,294,392	\$ 4,260,355	\$ (34,037)
Intergovernmental	8,200,163	8,200,163	9,257,851	1,057,688
Charges for services	228,160	228,160	220,280	(7,880)
Gifts and contributions	1,700	1,700	4,420	2,720
Miscellaneous	1,831,188	1,831,188	1,681,073	(150,115)
Total Revenues	\$ 14,555,603	\$ 14,555,603	\$ 15,423,979	\$ 868,376
Expenditures				
Current				
Human services				
Income maintenance	\$ 3,576,005	\$ 3,576,005	\$ 3,506,789	\$ 69,216
Social services	8,977,236	8,977,236	8,704,272	272,964
Total human services	\$ 12,553,241	\$ 12,553,241	\$ 12,211,061	\$ 342,180
Health				
Home care	\$ 2,557,405	\$ 2,557,405	\$ 1,457,542	\$ 1,099,863
Family health	-	-	1,135,734	(1,135,734)
Disease control and prevention	-	-	120,826	(120,826)
Total health	\$ 2,557,405	\$ 2,557,405	\$ 2,714,102	\$ (156,697)
Capital outlay	\$ -	\$ -	\$ 568,145	\$ (568,145)
Total Expenditures	\$ 15,110,646	\$ 15,110,646	\$ 15,493,308	\$ (382,662)
Excess of Revenues Over (Under) Expenditures	\$ (555,043)	\$ (555,043)	\$ (69,329)	\$ 485,714
Other Financing Sources (Uses)				
Transfers in	17,000	17,000	12,152	(4,848)
Net Change in Fund Balance	\$ (538,043)	\$ (538,043)	\$ (57,177)	\$ 480,866
Fund Balance - January 1	5,116,626	5,116,626	5,116,626	-
Fund Balance - December 31	\$ 4,578,583	\$ 4,578,583	\$ 5,059,449	\$ 480,866

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**CARLTON COUNTY
CARLTON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2009**

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 15, 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 28.

The appropriated budget is prepared by fund, function, and department. The County's department head 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.

Encumbrance accounting is employed in governmental funds. Encumbrances (for example, purchase orders or contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reapportioned and honored during the subsequent year.

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2009, expenditures exceeded appropriations in the following funds:

Road and Bridge Special Revenue Fund	\$ 749,935	Higher than anticipated construction expenditures Unbudgeted capital outlay expenditures for new
Human Services Special Revenue Fund	382,662	Human Services building

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SUPPLEMENTARY INFORMATION

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**CARLTON COUNTY
CARLTON, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

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

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

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**CARLTON COUNTY
CARLTON, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2009**

	Forfeited Tax Special Revenue Fund	Debt Service Fund	Total (Exhibit 3)
<u>Assets</u>			
Cash and pooled investments	\$ 215,242	\$ 1,266,458	\$ 1,481,700
Taxes receivable			
Prior	-	50,794	50,794
Accounts receivable	420,119	-	420,119
Total Assets	\$ 635,361	\$ 1,317,252	\$ 1,952,613
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 548	\$ -	\$ 548
Salaries payable	5,712	-	5,712
Due to other governments	36,660	-	36,660
Due to other funds	206,703	-	206,703
Deferred revenue - unavailable	321,787	46,760	368,547
Total Liabilities	\$ 571,410	\$ 46,760	\$ 618,170
Fund Balances			
Unreserved			
Designated for debt service	\$ -	\$ 1,270,492	\$ 1,270,492
Undesignated	63,951	-	63,951
Total Fund Balances	\$ 63,951	\$ 1,270,492	\$ 1,334,443
Total Liabilities and Fund Balances	\$ 635,361	\$ 1,317,252	\$ 1,952,613

**CARLTON COUNTY
CARLTON, MINNESOTA**

Statement 2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Forfeited Tax Special Revenue Fund	Debt Service Fund	Total (Exhibit 5)
Revenues			
Taxes	\$ 11,597	\$ 959,548	\$ 971,145
Intergovernmental	16,491	99,270	115,761
Miscellaneous	444,897	-	444,897
	\$ 472,985	\$ 1,058,818	\$ 1,531,803
Expenditures			
Current			
General government	\$ 36,660	\$ -	\$ 36,660
Conservation of natural resources	324,431	-	324,431
Debt service			
Principal	-	430,000	430,000
Interest	-	248,860	248,860
Administrative - fiscal charges	-	1,562	1,562
	\$ 361,091	\$ 680,422	\$ 1,041,513
Excess of Revenues Over (Under) Expenditures	\$ 111,894	\$ 378,396	\$ 490,290
Other Financing Sources (Uses)			
Transfers out	(96,634)	-	(96,634)
Net Change in Fund Balance	\$ 15,260	\$ 378,396	\$ 393,656
Fund Balance - January 1	48,691	892,096	940,787
Fund Balance - December 31	\$ 63,951	\$ 1,270,492	\$ 1,334,443

**CARLTON COUNTY
CARLTON, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 307,650	\$ 307,650	\$ 11,597	\$ (296,053)
Intergovernmental	-	-	16,491	16,491
Miscellaneous	-	-	444,897	444,897
Total Revenues	\$ 307,650	\$ 307,650	\$ 472,985	\$ 165,335
Expenditures				
Current				
General government				
County auditor/treasurer	\$ -	\$ -	\$ 36,660	\$ (36,660)
Conservation of natural resources				
Land use	307,650	307,650	324,431	(16,781)
Total Expenditures	\$ 307,650	\$ 307,650	\$ 361,091	\$ (53,441)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 111,894	\$ 111,894
Other Financing Sources (Uses)				
Transfers out	-	-	(96,634)	(96,634)
Net Change in Fund Balance	\$ -	\$ -	\$ 15,260	\$ 15,260
Fund Balance - January 1	48,691	48,691	48,691	-
Fund Balance - December 31	\$ 48,691	\$ 48,691	\$ 63,951	\$ 15,260

**CARLTON COUNTY
CARLTON, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 976,589	\$ 976,589	\$ 959,548	\$ (17,041)
Intergovernmental	99,270	99,270	99,270	-
Total Revenues	\$ 1,075,859	\$ 1,075,859	\$ 1,058,818	\$ (17,041)
Expenditures				
Debt service				
Principal	\$ 430,000	\$ 430,000	\$ 430,000	\$ -
Interest	645,859	645,859	248,860	396,999
Administrative (fiscal) charges	-	-	1,562	(1,562)
Total Expenditures	\$ 1,075,859	\$ 1,075,859	\$ 680,422	\$ 395,437
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 378,396	\$ 378,396
Fund Balance - January 1	892,096	892,096	892,096	-
Fund Balance - December 31	\$ 892,096	\$ 892,096	\$ 1,270,492	\$ 378,396

**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
Arrowhead Health Alliance

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**CARLTON COUNTY
CARLTON, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MOTOR VEHICLE REGISTRATION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 4,016,500	\$ 4,016,500	\$ -
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 4,016,500	\$ 4,016,500	\$ -
<u>EMPLOYEE FLEXIBLE BENEFITS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 79,251	\$ 155,932	\$ 150,572	\$ 84,611
<u>Liabilities</u>				
Accounts payable	\$ 79,251	\$ 155,932	\$ 150,572	\$ 84,611
<u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 68,543	\$ 3,791,361	\$ 3,773,016	\$ 86,888
<u>Liabilities</u>				
Due to other governments	\$ 68,543	\$ 3,791,361	\$ 3,773,016	\$ 86,888

**CARLTON COUNTY
CARLTON, MINNESOTA**

Statement 3
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Balance January 1	Additions	Deductions	Balance December 31
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>143,318</u>	\$ <u>8,058,595</u>	\$ <u>8,074,386</u>	\$ <u>127,527</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>143,318</u>	\$ <u>8,058,595</u>	\$ <u>8,074,386</u>	\$ <u>127,527</u>
 <u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>105,719</u>	\$ <u>8,027,416</u>	\$ <u>8,036,431</u>	\$ <u>96,704</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>105,719</u>	\$ <u>8,027,416</u>	\$ <u>8,036,431</u>	\$ <u>96,704</u>
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>-</u>	\$ <u>36,891,054</u>	\$ <u>36,891,054</u>	\$ <u>-</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>-</u>	\$ <u>36,891,054</u>	\$ <u>36,891,054</u>	\$ <u>-</u>

**CARLTON COUNTY
CARLTON, MINNESOTA**

***Statement 3
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Balance January 1	Additions	Deductions	Balance December 31
<u>NORTHEASTERN WASTE ADVISORY COUNCIL</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,192	\$ -	\$ -	\$ 1,192
<u>Liabilities</u>				
Due to other governments	\$ 1,192	\$ -	\$ -	\$ 1,192
 <u>REFUNDING</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 26,499	\$ 415,511	\$ 404,992	\$ 37,018
<u>Liabilities</u>				
Accounts payable	\$ 3,996	\$ 403,788	\$ 382,489	\$ 25,295
Due to other governments	22,503	11,723	22,503	11,723
Total Liabilities	\$ 26,499	\$ 415,511	\$ 404,992	\$ 37,018
 <u>COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 513,444	\$ 836,604	\$ 833,290	\$ 516,758
<u>Liabilities</u>				
Accounts payable	\$ 30,145	\$ 53,271	\$ 30,145	\$ 53,271
Salaries payable	7,417	2,207	7,417	2,207
Due to other governments	475,882	781,126	795,728	461,280
Total Liabilities	\$ 513,444	\$ 836,604	\$ 833,290	\$ 516,758

**CARLTON COUNTY
CARLTON, MINNESOTA**

***Statement 3
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Balance January 1	Additions	Deductions	Balance December 31
<u>ARROWHEAD HEALTH ALLIANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>340,404</u>	\$ <u>78,494</u>	\$ <u>100,741</u>	\$ <u>318,157</u>
<u>Liabilities</u>				
Accounts payable	\$ 1,348	\$ 855	\$ 1,348	\$ 855
Due to other governments	<u>339,056</u>	<u>77,639</u>	<u>99,393</u>	<u>317,302</u>
Total Liabilities	\$ <u>340,404</u>	\$ <u>78,494</u>	\$ <u>100,741</u>	\$ <u>318,157</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>1,278,370</u>	\$ <u>62,271,467</u>	\$ <u>62,280,982</u>	\$ <u>1,268,855</u>
<u>Liabilities</u>				
Accounts payable	\$ 114,740	\$ 4,630,346	\$ 4,581,054	\$ 164,032
Salaries payable	7,417	2,207	7,417	2,207
Due to other governments	<u>1,156,213</u>	<u>57,638,914</u>	<u>57,692,511</u>	<u>1,102,616</u>
Total Liabilities	\$ <u>1,278,370</u>	\$ <u>62,271,467</u>	\$ <u>62,280,982</u>	\$ <u>1,268,855</u>

OTHER SCHEDULE

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**CARLTON COUNTY
CARLTON, MINNESOTA**

Schedule 6

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2009**

Shared Revenue

State

Highway users tax	\$ 3,411,068
County program aid	1,787,968
PERA rate reimbursement	54,850
Disparity reduction aid	368,563
Police aid	145,150
E-911	102,946
Market value credit	1,450,156
Casino revenue aid	37,535

Total shared revenue \$ 7,358,236

Reimbursement for Services

State

Minnesota Department of Human Services	<u>\$ 1,360,928</u>
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Payments

Local

Household hazardous waste	\$ 14,887
Other local contributions	248,910

State

Payments in lieu of taxes	<u>245,991</u>
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Total payments \$ 509,788

Grants

State

Minnesota Department/Board of	
Public Safety	\$ 68,894
Transportation	48,771
Health	306,145
Natural Resources	245,551
Human Services	2,190,691
Water and Soil Resources	48,393
Office of Environmental Assistance	83,088
Peace Officer Standards and Training Board	9,910
Iron Range Resources	283,255
Miscellaneous boards	509

Total state \$ 3,285,207

**CARLTON COUNTY
CARLTON, MINNESOTA**

**Schedule 6
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2009**

Grants (Continued)

Federal

Department of

Agriculture

\$ 430,424

Commerce

9,900

Housing and Urban Development

394,449

Justice

12,890

Transportation

852,200

Education

228,803

Homeland Security

12,897

Health and Human Services

3,711,915

Total federal

\$ 5,653,478

Total state and federal grants

\$ 8,938,685

Total Intergovernmental Revenue

\$ 18,167,637

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**CARLTON COUNTY
CARLTON, MINNESOTA**

Schedule 7

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an adverse opinion on the government-wide financial statements of Carlton County. The opinion is adverse because the County has not reported and depreciated capital assets in the government-wide financial statements and eliminated capital outlay expenditures. The County also has not reported a liability and related expense for other postemployment benefits in the government-wide financial statements. The opinions on the financial statements of each major fund and the aggregate remaining fund information are unqualified.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Carlton County and are reported in the "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*." Three of the significant deficiencies are material weaknesses. The significant deficiencies relating to capital assets, other postemployment benefits, and audit adjustments are considered to be material weaknesses.
- C. No instances of noncompliance material to the financial statements of Carlton County were disclosed during the audit.
- D. A significant deficiency related to the audit of the major federal award programs is reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133." The significant deficiency is a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for Carlton County expresses a qualified opinion.
- F. Findings relative to a major federal award program for Carlton County were reported as required by Section 510(a) of OMB Circular A-133.

G. The major programs are:

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster	
State Administrative Matching Grants for SNAP	CFDA #10.561
State Administrative Matching Grants for SNAP - ARRA	CFDA #10.561
Community Development Block Grant	CFDA #14.228
Temporary Assistance for Needy Families	CFDA #93.558
Child Support Enforcement Cluster	
Child Support Enforcement	CFDA #93.563
Child Support Enforcement - ARRA	CFDA #93.563
Foster Care Title IV-E Cluster	
Foster Care Title IV-E	CFDA #93.658
Foster Care Title IV-E - ARRA	CFDA #93.658
Medical Assistance Program	CFDA #93.778

H. The threshold for distinguishing between Types A and B programs was \$300,000.

I. Carlton County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-11 Capital Assets

Current generally accepted accounting principles require capital assets be valued at historical cost or, if historical cost data are not available, estimated cost. The County does not maintain capital asset records, which show cost or estimated historical cost, and has received an adverse opinion on its government-wide financial statements.

Governmental Accounting Standards Board (GASB) Statement 34 requires governments to include capital assets on the Statement of Net Assets 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 and Expenditures are eliminated in the Statement of Activities.

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.

We recommend, in order to improve control over capital assets, eliminate the adverse opinion, and comply with the requirements of GASB Statement 34, a record-keeping system be established for capital assets. 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.

We recommend the County Board take steps to establish formal policies and procedures for implementing a capital asset system.

Client's Response:

The County has contracted with the Government Management Group (GMG) who will provide assistance to Carlton County in the determination and valuation of the County's capital assets. GMG 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 that this task be accomplished during the year 2010.

96-12 Segregation of Duties

Due to the limited number of office personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Carlton County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Several of the County's departments that collect fees have segregation of duties weaknesses. These departments generally have one staff person who is responsible for billing, collecting, depositing, and recording receipts as well as reconciling bank accounts.

We recommend that the County's elected officials and department heads be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff.

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.

96-18 Jail Canteen Account

The County Sheriff operates a canteen fund to purchase and sell items used by the prisoners in the jail. 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, but the remainder of the activity is not accounted for in the County's general ledger system.

The canteen fund has been in operation for many years, and it is unknown how the original start-up inventory was funded. However, 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. 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.

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.

06-1 Preparation of Financial Statements

The County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal controls over both: (1) recording, processing, and summarizing accounting data (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.

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition was caused by the County's decision that it is more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP.

We recommend the County accounting staff obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If the County still intends to have staff from the Office of the State Auditor assist in preparation then, at a minimum, it must identify and train individuals to obtain the expertise that can sufficiently review, understand, and approve the County's financial statements, including notes.

Client's Response:

The County is aware of the need to internally prepare its annual financial statements in accordance with GAAP, and as such the County must work towards the ability to prepare our statements without the assistance of our external auditors. That being said, financial constraints will very likely dictate our ability to internally prepare our financial statements without external assistance.

06-2 Audit Adjustments

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. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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. However, County staff have not had the time to prepare all of the information necessary to provide accurate financial statements. Therefore, audit adjustments were necessary to record additional receivables found during the audit, adjust reserves and designations, adjust state-aid highway allotments, and make reclassification entries as necessary. Audit adjustments were also necessary to adjust modified accrual financial statements to the accrual basis for the government-wide financial statements.

We recommend that County staff review the trial balances and journal entries in detail to ensure they have an understanding of all audit adjustments made 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.

06-3 Journal Entries

Carlton County limits access to the journal entry function on the Integrated Financial System (IFS) to select County employees. The journal entries made by the employees are not reviewed or approved by anyone else.

The ability to make journal entries on the IFS general ledger system 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. Also needed is a procedure for review and approval of the journal entries made.

We recommend the County Auditor/Treasurer review the access to the journal entry function to determine if there is a logical need for that access for all employees who have access. 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. Review of this report would be to ensure that no journal entries have been made which have not been 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.

06-4 Accounting Policies and Procedures Manual

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

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.

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.

06-5 Computer Risk Management

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.

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.

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.

07-1 Approval of Time Sheets

During our audit, we noted that department heads and certain supervisors who do not have immediate supervisors are approving their own time sheets. Approval of time sheets is an important internal control which helps to ensure that the time worked is reported accurately and reliably.

We recommend that each time sheet contain two attestations of the hours worked. One attestation should be by the employee and the other should be by the employee's supervisor or other appropriate person.

Client's Response:

The Carlton County Auditor/Treasurer, in conjunction with the County Personnel Director, will review this matter and make a recommendation to the County Board for action.

08-1 Other Postemployment Benefits (OPEB)

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.

The County should have determined its net OPEB liability and annual OPEB cost in accordance with GASB Statement 45. Carlton County has not determined this liability or cost. The County has received an adverse opinion on the government-wide financial statements.

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 hire an actuary to determine this liability.

Client's Response:

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

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

A. INTERNAL CONTROL

ITEM ARISING THIS YEAR

09-1 Expenditure Approval and Grant Accounting - Community Development Block Grant - Small Cities Program (CFDA #14.228)

Carlton County is the grantee of a Small Cities Development Grant funded under the federal Community Development Block Grant Program. The grant is administered by Lakes and Pines Community Action Council (C.A.C.), which is a nonprofit organization that was hired by the County to administer this grant.

Schedule 7
(Continued)

Carlton County established a checking account for this grant program, and the Lakes and Pines C.A.C. approves the grant expenditures and maintains the checkbook for this grant. Every other week, the Lakes and Pines C.A.C. submits a Disbursement Request Form to the Minnesota Department of Employment and Economic Development to draw down funds under the federal grant. Checks in payment of grant expenditures are written by the nonprofit administrator and are sent to Carlton County for signature. After signature, the checks are sent back to the Lakes and Pines C.A.C., which holds the checks until they have received reimbursement from the Minnesota Department of Employment and Economic Development. When the drawdown funds are received, the checks are released to the vendors.

Although Carlton County is the grantee on this grant, no one at the County reviews or approves the documentation of the expenditures being paid under this grant program. Also, the revenues and expenditures related to this grant are not being recorded on the County's general ledger system. In 2009, there was \$394,449 of grant revenues and expenditures that were not recorded on the County's general ledger system. These revenues and expenditures are included in the financial statements.

Since Carlton County is the grantee on this grant, the County Board should establish a procedure regarding who should be responsible at the County for approving these expenditures and how that approval should be documented. The approving party should be knowledgeable about the grant and what is an allowable expenditure and what is not an allowable expenditure under the grant. The County Auditor/Treasurer should establish general ledger accounts to record the activity of this grant.

Corrective Action Plan:

Contact Persons:

Paul Gassert, County Auditor/Treasurer
Pat Oman, Economic Development Director

Corrective Action Planned:

Carlton County was successful in obtaining a Small Cities Program Community Development Block Grant in 2009 - this is the first time the County has been successful in obtaining these grant funds. The County has contracted with Lakes and Pines C.A.C. whereby Lakes and Pines is administering the grant on behalf of the County. As such, the County should have been more involved in the administration of the grant.

Although this grant is near completion, the County anticipates that they will be successful in obtaining additional funds through the CDBG Program. The County will work to establish more clear policies and procedures regarding the oversight of the grant. It is further the intent of the County to establish the necessary general ledger accounts to record the activities of the grant.

Anticipated Completion Date:

December 31, 2010

B. COMPLIANCE

ITEM ARISING THIS YEAR

09-2 Cash Management - Community Development Block Grant - Small Cities Program (CFDA #14.228)

Carlton County is the grantee of a Small Cities Development Grant funded under the federal Community Development Block Grant Program. The grant is administered by Lakes and Pines C.A.C., which is a nonprofit organization hired by the County to administer this grant.

Lakes and Pines C.A.C. draws down funds from the State of Minnesota Department of Employment and Economic Development by submitting a Disbursement Request Form. Once grant funds are received, vendors are paid. However, during October, November, and December 2009, three grant payments were received totaling \$33,826, but the corresponding vendors were not paid until January 2010.

The federal common rule requires that grantees have procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees whenever advance payment procedures are used. The County's grant administrator did not issue these checks in a timely manner following the receipt of the federal funds.

We recommend that Carlton County establish procedures to ensure that federal funds are not held for an unreasonable length of time before the funds are disbursed.

Corrective Action Plan:

Contact Persons:

Paul Gassert, County Auditor/Treasurer
Pat Oman, Economic Development Director

Corrective Action Planned:

Carlton County was successful in obtaining a Small Cities Program Community Development Block Grant in 2009 - this is the first time the County has been successful in obtaining these grant funds. The County has contracted with Lakes and Pines C.A.C. whereby Lakes and Pines is administering the grant on behalf of the County. As such, the County should have been more involved in the administration of the grant. The incidents referred to leading to the delay in disbursement of the grant funds were isolated and are not likely to occur again.

The County will work to establish more clear policies and procedures regarding the oversight of the grant so as to ensure that federal funds are not held for an unreasonable length of time before the funds are disbursed.

Anticipated Completion Date:

December 31, 2010

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-3 Electronic Funds Transfers

The County Auditor/Treasurer uses electronic funds transfers to purchase and sell investments and to move money between accounts. The County Board is required by Minn. Stat. § 385.071 to establish policies and procedures for investment and expenditure transactions via electronic funds transfers. The County Board has not established written policies and procedures regarding the use of electronic funds transfers.

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, this draft policy will be presented to the County Board for their consideration and/or approval.

96-4 Unclaimed Funds

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. §§ 345.41-.43. 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. Any person who willfully refuses to pay or deliver abandoned property to the Commissioner under the above-mentioned statute shall be guilty of a gross misdemeanor. Minn. Stat. § 345.55. Our review of the County's documentation of unclaimed checks reveals the amount of unclaimed checks that have not been turned over to the state to be approximately \$51,684 as of December 31, 2009.

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 which are required to be remitted to the state.

Client's Response:

The County has established a system of tracking checks to be reported to the Department of Commerce/Unclaimed Property Division. The County will investigate turning these monies over to the state.

96-25

Travel Policy

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.

Minnesota law requires each county to "have on record a policy that controls travel outside of the state of Minnesota for . . . elected officials." Minn. Stat. § 471.661. 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. *Id.*

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.

A separate travel claim form would help the County Board implement its policy by specifying on the face of the claim form the type of expense, governmental purpose, documentation requirements, and appropriate approvals.

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. At this time, they have chosen not to take any formal action on a travel policy. The Auditor will again present a draft policy for their review and action.

04-1 Publication of Financial Statements

The County is required by Minn. Stat. § 375.17 to annually publish its financial statements. The County Auditor/Treasurer has not published the financial statements for the years 2003 through 2008.

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. § 375.15, the Carlton County Auditor will ensure that the financial statements for 2003 through 2008 are published in the county's legal newspaper.

08-2 Collateral Assignments

Carlton County has deposits with Wells Fargo Bank. To secure these deposits, Wells Fargo has pledged collateral to Carlton County. Collateral assignments are required to be in writing by Minn. Stat. § 118A.03, subd. 4.

The most current pledge agreement on file is dated 2003. The Wells Fargo 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."

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 perfect the collateral. See 12 U.S.C. § 1823(e).

We recommend that 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 will secure a new (current) collateral agreement with Wells Fargo.

ITEM ARISING THIS YEAR

09-3

Safekeeping of Investments

During 2009, Minn. Stat. § 118A.06 required all County investments to be held in safekeeping with:

- a Federal Reserve bank;
- any bank authorized under the laws of the United States or any state to exercise corporate trust powers, including, but not limited to, the bank from which the investment is purchased;
- a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York; or
- a securities broker-dealer having its principal executive office in Minnesota licensed under chapter 80A, or an affiliate of it, and regulated by the Securities and Exchange Commission.

Carlton County has investments on hand at December 31, 2009, with Wells Fargo Advisors totaling \$3,064,669. These government securities and certificates of deposit are both purchased and held by Wells Fargo Advisors and, therefore, we do not believe these investments are being safekept in accordance with Minn. Stat. § 118A.06 as it was in effect at December 31, 2009.

The 2010 Legislature changed the requirements so that as of August 1, 2010, brokers can hold public investments to the extent they have insurance to protect their clients through the Securities Investors Protection Corporation (SIPC) coverage or excess SIPC coverage. We recommend that all County securities be held only by entities that meet the criteria of Minn. Stat. § 118A.06. For brokers such as Wells Fargo Advisors, the County must verify that the broker has SIPC coverage and excess SIPC coverage sufficient to protect all County securities in its possession in order to be in compliance with Minn. Stat. § 118A.06 after August 1, 2010.

Client's Response:

The County will be working with Wells Fargo to verify that Wells has Securities Investors Protection Corporation coverage and excess SIPC coverage sufficient to protect all the County's securities held in their possession on behalf of the County.

PREVIOUSLY REPORTED ITEM RESOLVED

Broker Certifications (08-3)

In the prior audit, the County had not annually obtained a certification from each broker with which the County invests acknowledging that the broker had received the County's investment restrictions and agreed to handle the County's account in accordance with the restrictions as required by Minn. Stat. § 118A.06, subd. 9.

Resolution

In 2009, the County received the necessary certifications from the brokers and is in compliance with Minn. Stat. § 118A.06, subd. 9.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-24

Budgets

The County Board does not have a formal written budget policy. A budget policy has been drafted; however, it has not been formally approved by the County Board. Under past practice, it has been the informal policy of the Board to approve all line-item budget changes and all budget amendments.

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.

All budget transfers or amendments that require Board approval by 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.

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 included the accounts affected by the change and the amount of 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.

96-26

Disaster Recovery Plan

The County has a disaster recovery plan in the event of a disaster involving its computer system. However, the plan has not been updated since 1993. Since the plan was written, new computer systems and software have been implemented that make the disaster recovery plan outdated.

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

We recommend that 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.

98-7

Contract Change Orders

In a prior audit, we noted 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.

The County Board does not have a clear policy as to whether all contract change orders are to be approved by the Board. It has been past practice to bring change orders to the Board for approval. It is important that change orders be approved by the County Board because the use of County resources is required to fund any project overruns.

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.

C. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

GASB recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of the information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance reserved, unreserved, designated, and undesignated are being replaced by nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of the government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in other classifications.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for the County for the year ending December 31, 2011.



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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*

Board of County Commissioners
Carlton County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carlton County as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 17, 2010. We have issued an adverse opinion on the government-wide financial statements because Carlton County has reported neither capital assets nor other postemployment benefits (OPEB) obligations in the Statement of Net Assets and has reported neither the related depreciation nor the net OPEB obligation change in the Statement of Activities, as required by generally accepted accounting principles. Also, capital expenditures have not been eliminated from the Statement of Activities. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Carlton County's internal control over financial reporting as a basis for designing our auditing procedures 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 preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been 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.

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 96-11, 06-2, and 08-1 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 96-12, 96-18, 06-1, 06-3 through 06-5, and 07-1 to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because that provision was not applicable.

The results of our tests indicate that, for the items tested, Carlton County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 96-3, 96-4, 96-25, 04-1, 08-2, and 09-3.

Also included in the Schedule of Findings and Questioned Costs are management practices comments and an other item for consideration. We believe these recommendations and information to be of benefit to Carlton County, and they are reported for that purpose.

Carlton County's written responses to internal control, legal compliance, and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 17, 2010

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Carlton County

Compliance

We have audited the compliance of Carlton County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on the County's compliance with those requirements.

As described in item 09-2 in the accompanying Schedule of Findings and Questioned Costs, Carlton County did not comply with requirements regarding cash management that are applicable to its Community Development Block Grant (CFDA #14.228) major federal program. Compliance with such requirements is necessary, in our opinion, for Carlton County to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Carlton County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

Management of Carlton County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness on 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

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 09-1 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carlton County as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 17, 2010. We have issued an adverse opinion on the government-wide financial statements because Carlton County has reported neither capital assets nor its other postemployment benefits (OPEB) obligation in the Statement of Net Assets and has reported neither the related depreciation nor the net OPEB obligation change in the Statement of Activities, as required by generally accepted accounting principles. Also, capital expenditures have not been eliminated from the Statement of Activities. Our audit was performed for the purpose of forming opinions on the County's financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Carlton County's corrective action plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plans and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management and others within the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

November 17, 2010

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**CARLTON COUNTY
CARLTON, MINNESOTA**

Schedule 8

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Agriculture			
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		\$ 159,061
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster	10.561		256,861
State Administrative Matching Grants for SNAP	10.561		14,502
State Administrative Matching Grants for SNAP - ARRA	10.561		<u>14,502</u>
Total U.S. Department of Agriculture			\$ 430,424
U.S. Department of Commerce			
Passed Through Minnesota Department of Natural Resources			
Coastal Zone Management Administrative Awards	11.419	306A-03-10 310-03-08	<u>\$ 9,900</u>
U.S. Department of Housing and Urban Development			
Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grant	14.228	CDAP-07-0071-0-FY08	<u>\$ 394,449</u>
U.S. Department of Justice			
Direct			
Edward Byrne Memorial Justice Assistance Grant - ARRA	16.804		\$ 11,168
Passed Through Minnesota Department of Public Safety Bulletproof Vest Partnership Program	16.607		<u>1,722</u>
Total U.S. Department of Justice			\$ 12,890
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Airport Improvement Program	20.106	SP-0904-28 SP-0904-29	\$ 171,723
Highway Planning and Construction	20.205	009-661-018 009-661-020 009-604-030 009-090-001	778,152

**CARLTON COUNTY
CARLTON, MINNESOTA**

Schedule 8
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Transportation (Continued)			
Passed Through Minnesota Department of Public Safety			
Highway Safety Cluster			
State and Community Highway Safety	20.600		1,466
Safety Belt Performance Grants	20.609		2,278
			<u>2,278</u>
Total U.S. Department of Transportation			\$ 953,619
U.S. Department of Education			
Passed Through Minnesota Department of Education			
Safe and Drug-Free Schools and Communities	84.186		\$ 228,803
U.S. Department of Health and Human Services			
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board			
Public Health Emergency Preparedness	93.069		\$ 13,715
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	333-08-AZRP-001	40,427
Temporary Assistance for Needy Families	93.558		34,978
Medical Assistance Program	93.778		30,789
Block Grants for Community Mental Health Services	93.958		56,611
Maternal and Child Health Services Block Grant to the States	93.994		37,852
Passed Through Arrowhead Regional Development Commission			
Alzheimer's Disease Demo Grants to States	93.051		16,565
National Family Caregiver Support, Title III, Part E	93.052		23,468
Passed Through Minnesota Department of Human Services			
Alzheimer's Disease Demo Grants to States	93.051		12,518
Projects for Assistance in Transition from Homelessness (PATH)	93.150		4,183
Temporary Assistance for Needy Families	93.558		362,673
Child Support Enforcement Cluster			
Child Support Enforcement	93.563		1,020,914
Child Support Enforcement - ARRA	93.563		86,867
Refugee and Entrant Assistance Grant	93.566		622
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		25,604
Child Welfare Services - State Grants	93.645		8,720
Foster Care Title IV-E Cluster			
Foster Care Title IV-E	93.658		492,858
Foster Care Title IV-E - ARRA	93.658		30,225

**CARLTON COUNTY
CARLTON, MINNESOTA**

Schedule 8
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services (Continued)			
Adoption Assistance Cluster			
Adoption Assistance	93.659		25,304
Adoption Assistance - ARRA	93.659		2,992
Social Services Block Grant	93.667		288,352
Chafee Foster Care Independence Program	93.674		4,212
Medical Assistance Program	93.778		967,448
Block Grants for Community Mental Health Services	93.958		<u>10,292</u>
Total U.S. Department of Health and Human Services			<u>\$ 3,598,189</u>
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012		\$ 3,719
Passed Through Minnesota Department of Public Safety			
Emergency Management Performance Grants	97.042	2008-EMPG-0744	<u>9,178</u>
Total U.S. Department of Homeland Security			<u>\$ 12,897</u>
Total Federal Awards			<u><u>\$ 5,641,171</u></u>

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**CARLTON COUNTY
CARLTON, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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, 2009. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 assets, 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 the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$	5,653,478
Grants received more than 90 days after year-end, deferred in 2009		
Airport Improvement Program		171,723
Highway Planning and Construction		285,730
Deferred in 2008, recognized as revenue in 2009		
Foster Care Title IV-E		(113,726)
Airport Improvement Program		(109,102)
Highway Planning and Construction		(246,932)
		(478,780)
Expenditures Per Schedule of Expenditures of Federal Awards	\$	5,641,171

**CARLTON COUNTY
CARLTON, MINNESOTA**

5. Subrecipients

Of the expenditures presented in the schedule, Carlton County provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
84.186	Safe and Drug-Free Schools and Communities	\$ 228,803

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.