

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

NORMAN COUNTY
ADA, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2010

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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**NORMAN COUNTY
ADA, MINNESOTA**

For the Year Ended December 31, 2010



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

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**NORMAN COUNTY
ADA, MINNESOTA**

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**NORMAN COUNTY
ADA, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2010**

			<u>Term Expires</u>
Elected			
Commissioners			
Board Member	Marvin Gunderson	District 1	January 2013
Board Member	Warren Olson*	District 2	January 2011
Vice Chair	Steve Jacobson	District 3	January 2013
Chair	Lee Ann Hall	District 4	January 2011
Board Member	Steven Bommersbach	District 5	January 2013
Attorney	Thomas A. Opheim		January 2011
Auditor-Treasurer	Richard D. Munter		January 2011
County Recorder	Kari Aanenson		January 2011
Registrar of Deeds	Kari Aanenson		January 2011
County Sheriff	Myron Thronson		January 2011
Appointed			
Assessor	Greg Landa		December 2012
County Engineer	Milton Alm		May 2013
Coroner	Dr. M. B. McGee, M.D.		March 2011
Court Administrator	Loretta Wiebolt		Indefinite
Emergency Services	Vacant**		
Veterans Service Officer	Theresa Anderson		August 2014
Welfare Board			
Chair	Steve Jacobson		January 2013
Vice Chair	Marvin Gunderson		January 2013
Secretary	Marian Cerkowniak		May 2011
Member	Carol Sorenson		May 2011
Member	Warren Olson		January 2011
Member	Lee Ann Hall		January 2011
Member	Steven Bommersbach		January 2013
Director	Chris Kujava		Indefinite

*Nathan Redland was elected as the new Commissioner effective January 3, 2011.

** Former Environmental Services Officer Kevin Rudd resigned on November 30, 2010. Josh Holte was appointed Environmental Services Officer effective February 8, 2011, to complete Mr. Rudd's term.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Norman County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Norman County, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Norman 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, and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Norman County as of December 31, 2010, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information listed in the table of contents be presented to supplement the basic financial statements. Such information,

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Norman County's basic financial statements taken as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 14, 2011, on our consideration of Norman County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 14, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**NORMAN COUNTY
ADA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(Unaudited)**

Norman County's Management's Discussion and Analysis (MD&A) provides an overview of County financial activities for the fiscal year ended December 31, 2010. 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 Norman County's financial statements and the notes to the financial statements. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

The assets of Norman County exceeded its liabilities by \$55,726,022 at the close of 2010. Of this amount, \$5,797,263 (unrestricted net assets) may be used to meet Norman County's ongoing obligations to citizens and creditors.

At the close of 2010, Norman County's governmental funds reported combined ending fund balances of \$6,280,890, a decrease of \$167,035 in comparison with the prior year. Of the total fund balance, \$5,188,550 is available for spending at the County's discretion and is noted as unreserved fund balance.

At the close of 2010, unreserved fund balance for the General Fund was \$3,608,565, or 70.4 percent, of total General Fund expenditures.

Norman County currently has \$247,300 of bonded indebtedness. The money will be used for the Perley and Hendrum dike projects scheduled for the summer of 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

The statement of net assets presents information on all of Norman County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Norman County is improving or deteriorating.

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

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

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

Fund Level Financial Statements

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term

financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

Notes to the Financial Statements

The notes to the financial statements provide additional information essential to a full understanding of the data provided.

Other Information

In addition to the basic financial statements and notes, supplementary information is provided on Norman County's budgeted funds, deposits and investments, ditch balances, intergovernmental revenues and expenditures of federal awards.

Norman County adopts an annual appropriated budget for its General Fund and all special revenue funds except for the Ditch Fund and Gravel Tax Fund. Budgetary comparison statements have been provided for the County's major funds to demonstrate compliance with these budgets.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Norman County's assets exceeded liabilities by \$55,726,022 at the close of 2010. The largest portion of Norman County's net assets (86.9 percent) reflects its investment in capital assets (land, infrastructure, buildings, and equipment). However, it should be noted that these assets are not available for future spending.

Governmental Net Assets

	2010	2009
Current and other assets	\$ 8,499,809	\$ 7,741,719
Capital assets	48,433,471	47,713,846
Total Assets	\$ 56,933,280	\$ 55,455,565
Long-term liabilities outstanding	\$ 722,505	\$ 434,611
Other liabilities	484,753	349,396
Total Liabilities	\$ 1,207,258	\$ 784,007
Net Assets		
Invested in capital assets	\$ 48,433,471	\$ 47,713,846
Restricted	1,495,288	941,366
Unrestricted	5,797,263	6,016,346
Total Net Assets	\$ 55,726,022	\$ 54,671,558

The unrestricted net asset amount of \$5,797,263 as of December 31, 2010, may be used to meet the County's ongoing obligations to citizens and creditors.

Governmental Activities

Norman County's activities increased net assets by \$1,054,464, or 1.9 percent, over the 2009 net assets. The key elements of the increase were an increase in investment in capital assets and an increase in restricted for highways and streets in 2010.

Changes in Net Assets

	2010	2009
Revenues		
Program revenues		
Charges for services	\$ 872,415	\$ 906,245
Operating grants and contributions	7,318,175	6,023,209
Capital grants and contributions	697,112	559,375
General revenues		
Property taxes	3,378,158	3,243,061
Gravel taxes	30,935	30,127
Grants and contributions not restricted to specific programs	821,993	1,212,501
Other	254,530	221,492
Total Revenues	\$ 13,373,318	\$ 12,196,010

	<u>2010</u>	<u>2009</u>
Expenses		
General government	\$ 2,228,663	\$ 1,784,309
Public safety	1,270,246	1,162,566
Highways and streets	4,373,006	3,907,677
Sanitation	358,709	357,263
Human services	2,094,402	2,188,805
Health	306,227	299,298
Culture and recreation	1,060,250	309,108
Conservation of natural resources	547,131	410,999
Economic development	<u>80,220</u>	<u>-</u>
Total Expenses	<u>\$ 12,318,854</u>	<u>\$ 10,420,025</u>
Increase in Net Assets	\$ 1,054,464	\$ 1,775,985
Net Assets, January 1	<u>54,671,558</u>	<u>52,895,573</u>
Net Assets, December 31	<u>\$ 55,726,022</u>	<u>\$ 54,671,558</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$6,280,890, a decrease of \$167,035 in comparison with the prior year. The majority of the decrease was due to an increase in deferred revenue unavailable for highway projects and deferred revenue for special assessments relating to ditch debt service.

The General Fund is the chief operating fund of Norman County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$3,608,565, while total fund balance was \$4,064,801. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 70.4 percent of total General Fund expenditures. In 2010, fund balance in the General Fund decreased by \$91,315. The main reason for the decrease was less local governmental aid from the State of Minnesota.

The Road and Bridge Special Revenue Fund's fund balance decreased by \$110,111 in 2010. The main reason for this decrease was FEMA funds for the 2009 and 2010 floods haven't been received.

The Human Services Special Revenue Fund's fund balance decreased by \$30,094 due to excess expenditures over revenues. Excess expenditures over revenues were budgeted to reduce the fund balance and provide additional levy revenue for other funds.

General Fund Budgetary Highlights

The Norman County Board of Commissioners did not make any budgetary amendments/revisions in 2010.

The actual revenues were higher than budgeted revenues by \$1,628,799, and actual expenditures were higher than budgeted expenditures by \$1,755,930. The largest revenue variance was in intergovernmental revenue received in excess of what was budgeted. The largest expenditure variances were for Planning and Zoning, Agassiz Trail Project, and Ambulance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2010, was \$48,433,471 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The total increase in Norman County's investment in capital assets for the current fiscal year was 1.5 percent. The increases were attributed primarily to construction in progress for infrastructure.

**Governmental Capital Assets
(Net of Depreciation)**

	<u>2010</u>	<u>2009</u>
Land	\$ 904,383	\$ 788,977
Construction in progress	1,082,404	-
Infrastructure	43,713,264	44,030,299
Buildings	1,457,433	1,525,160
Furniture, equipment, and machinery	<u>1,275,987</u>	<u>1,369,410</u>
Total	<u>\$ 48,433,471</u>	<u>\$ 47,713,846</u>

Additional information on the County's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, Norman County had \$247,300 of bonded indebtedness. This debt was issued for the Perley and Hendrum dike projects scheduled to be completed in 2011.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- Norman County is very dependent on state-paid aids, credits, and grants. Should the State of Minnesota significantly change the formula for state-aid payments to the County, it would have a significant impact on next year's budget. Due to the cuts in the state-aid payments, the Norman County budget is not balanced for 2010.
- The County completed Phase III of the courthouse project, which includes tuck pointing the courthouse in 2010. Phase IV, which includes replacing windows and the front door, will be completed in 2011.
- A Presidential Declaration of a Major Disaster was declared in 2010 for the spring flooding. This has a definite impact on the 2010 financial statements of Norman County.
- The County is reviewing revenue sources and considering cost-effective and efficient ways to deliver Norman County's programs and services that will influence future budgets.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of Norman County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Norman County Auditor-Treasurer, P. O. Box 266, Ada, Minnesota 56510.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

Assets

Cash and pooled investments	\$	5,786,165
Taxes receivable		
Current - net		44,979
Prior - net		38,823
Special assessments receivable		
Current - net		17,764
Prior - net		17,597
Deferred - net		248,520
Accounts receivable - net		76,189
Accrued interest receivable		5,373
Due from other governments		1,829,917
Rent receivable		424
Inventories		434,058
Capital assets		
Non-depreciable		1,986,787
Depreciable - net of accumulated depreciation		46,446,684
		56,933,280
Total Assets	\$	56,933,280

Liabilities

Accounts payable	\$	228,192
Salaries payable		20,935
Contracts payable		84,547
Due to other governments		147,913
Customer deposits		3,166
Long-term liabilities		
Due within one year		124,866
Due in more than one year		597,639
		1,207,258
Total Liabilities	\$	1,207,258

Net Assets

Invested in capital assets	\$	48,433,471
Restricted for		
General government		241,571
Public safety		214,665
Highways and streets		1,039,052
Unrestricted		5,797,263
		55,726,022
Total Net Assets	\$	55,726,022

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Expenses	Fees, Charges, Fines, and Other	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
			Operating Grants and Contributions	Capital Grants and Contributions	
<u>Functions/Programs</u>					
Primary government					
Governmental activities					
General government	\$ 2,228,663	\$ 174,326	\$ 401,504	\$ -	\$ (1,652,833)
Public safety	1,270,246	72,785	199,607	-	(997,854)
Highways and streets	4,373,006	15,943	3,946,424	697,112	286,473
Sanitation	358,709	237,613	62,769	-	(58,327)
Human services	2,094,402	334,755	1,099,920	-	(659,727)
Health	306,227	903	213,731	-	(91,593)
Culture and recreation	1,060,250	-	1,014,120	-	(46,130)
Conservation of natural resources	547,131	36,090	307,433	-	(203,608)
Economic development	80,220	-	72,667	-	(7,553)
Total Governmental Activities	\$ 12,318,854	\$ 872,415	\$ 7,318,175	\$ 697,112	\$ (3,431,152)
 General Revenues					
Property taxes					\$ 3,378,158
Gravel taxes					30,935
Mortgage registry and deed taxes					2,834
Grants and contributions not restricted to specific programs					821,993
Payments in lieu of tax					25,734
Investment income					18,880
Miscellaneous					141,763
Rental income					63,212
Gain on disposal of capital assets					2,107
Total general revenues					\$ 4,485,616
Change in net assets					\$ 1,054,464
Net Assets - Beginning					54,671,558
Net Assets - Ending					\$ 55,726,022

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	<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	\$ 3,939,680	\$ 66,961	\$ 1,344,134	\$ 281,542	\$ 5,632,317
Petty cash and change funds	4,600	200	-	-	4,800
Undistributed cash in agency funds	94,411	22,976	15,320	16,341	149,048
Taxes receivable					
Current	29,137	9,318	6,212	312	44,979
Prior	24,906	8,156	5,469	292	38,823
Special assessments receivable					
Current	17,658	-	-	106	17,764
Prior	17,505	-	-	92	17,597
Deferred	-	-	-	248,520	248,520
Accounts receivable	8,501	10,552	18,275	38,861	76,189
Accrued interest receivable	5,373	-	-	-	5,373
Due from other funds	-	700	-	-	700
Due from other governments	203,292	1,539,666	83,720	3,239	1,829,917
Rent receivable	-	-	-	424	424
Inventories	-	434,058	-	-	434,058
Total Assets	<u>\$ 4,345,063</u>	<u>\$ 2,092,587</u>	<u>\$ 1,473,130</u>	<u>\$ 589,729</u>	<u>\$ 8,500,509</u>

**NORMAN COUNTY
ADA, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	<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	\$ 99,625	\$ 24,827	\$ 82,776	\$ 15,885	\$ 223,113
Salaries payable	6,136	13,358	1,441	-	20,935
Contracts payable	-	84,547	-	-	84,547
Due to other funds	-	-	5,079	700	5,779
Due to other governments	100,146	6,894	24,053	16,820	147,913
Customer deposits	-	-	-	3,166	3,166
Deferred revenue - unavailable	74,355	1,373,861	9,320	276,630	1,734,166
Total Liabilities	\$ 280,262	\$ 1,503,487	\$ 122,669	\$ 313,201	\$ 2,219,619
Fund Balances					
Reserved for					
Inventories	\$ -	\$ 434,058	\$ -	\$ -	\$ 434,058
Real estate tax shortfall	21,160	-	-	-	21,160
Recorder's compliance fund	89,477	-	-	-	89,477
State-aid highway projects	-	26,386	-	-	26,386
Township road restoration	-	175,660	-	-	175,660
Security deposits	500	-	-	-	500
Law library	43,496	-	-	-	43,496
Sheriff's contingency	4,661	-	-	-	4,661
Recorder's equipment	80,872	-	-	-	80,872
Enhanced 911	210,004	-	-	-	210,004
Help America Vote Act	6,066	-	-	-	6,066
Unreserved					
Designated for debt service	-	-	-	58,079	58,079
Designated for K-9 unit	5,913	-	-	-	5,913
Undesignated	3,602,652	(47,004)	1,350,461	-	4,906,109
Unreserved, reported in nonmajor					
Special revenue funds	-	-	-	218,449	218,449
Total Fund Balances	\$ 4,064,801	\$ 589,100	\$ 1,350,461	\$ 276,528	\$ 6,280,890
Total Liabilities and Fund Balances	\$ 4,345,063	\$ 2,092,587	\$ 1,473,130	\$ 589,729	\$ 8,500,509

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

Fund balances - total governmental funds (Exhibit 3)	\$ 6,280,890
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	48,433,471
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	1,734,166
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
General obligation bonds	\$ (247,300)
Compensated absences	(390,576)
Net OPEB liability	(84,629)
	<u>(722,505)</u>
Net Assets of Governmental Activities (Exhibit 1)	<u><u>\$ 55,726,022</u></u>

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues					
Taxes	\$ 2,206,300	\$ 721,707	\$ 463,656	\$ 27,906	\$ 3,419,569
Special assessments	206,631	-	-	99,691	306,322
Licenses and permits	4,292	-	-	400	4,692
Intergovernmental	2,249,313	4,168,231	1,214,650	62,478	7,694,672
Charges for services	213,796	18,231	263,976	237,218	733,221
Interest on investments	18,880	-	-	-	18,880
Miscellaneous	132,235	108,058	70,779	32,800	343,872
Total Revenues	\$ 5,031,447	\$ 5,016,227	\$ 2,013,061	\$ 460,493	\$ 12,521,228
Expenditures					
Current					
General government	\$ 2,136,740	\$ -	\$ -	\$ 1,000	\$ 2,137,740
Public safety	1,240,533	-	-	-	1,240,533
Highways and streets	-	4,872,909	-	-	4,872,909
Sanitation	-	-	-	369,996	369,996
Human services	7,692	-	2,043,155	10,917	2,061,764
Health	306,227	-	-	-	306,227
Culture and recreation	1,060,250	-	-	-	1,060,250
Conservation of natural resources	291,100	-	-	261,395	552,495
Economic development	80,220	-	-	-	80,220
Intergovernmental					
Highways and streets	-	271,804	-	-	271,804
Total Expenditures	\$ 5,122,762	\$ 5,144,713	\$ 2,043,155	\$ 643,308	\$ 12,953,938
Excess of Revenues Over (Under)					
Expenditures	\$ (91,315)	\$ (128,486)	\$ (30,094)	\$ (182,815)	\$ (432,710)
Other Financing Sources (Uses)					
Bonds issued	-	-	-	247,300	247,300
Net Change in Fund Balance	\$ (91,315)	\$ (128,486)	\$ (30,094)	\$ 64,485	\$ (185,410)
Fund Balance - January 1	4,156,116	699,211	1,380,555	212,043	6,447,925
Increase (decrease) in reserved for inventories	-	18,375	-	-	18,375
Fund Balance - December 31	\$ 4,064,801	\$ 589,100	\$ 1,350,461	\$ 276,528	\$ 6,280,890

**NORMAN COUNTY
ADA, 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, 2010**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (185,410)

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Also, in the statement of activities, only the gain or loss on the disposal of assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets disposed of.

Expenditures for general capital assets and infrastructure	\$ 2,210,011	
Current year depreciation	<u>(1,490,386)</u>	719,625

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	\$ 1,734,166	
Deferred revenue - January 1	<u>(944,398)</u>	789,768

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net assets. Also, governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of net assets.

Proceeds of new debt		
General obligation bonds issued		(247,300)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in compensated absences	\$ (1,669)	
Change in inventories	18,375	
Net OPEB liability	<u>(38,925)</u>	<u>(22,219)</u>

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 1,054,464

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FIDUCIARY FUNDS

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**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2010**

	<u>Children's Collaborative Investment Trust</u>	<u>Agency</u>
<u>Assets</u>		
Cash and pooled investments	\$ 36,065	\$ 172,922
Accrued interest receivable	26	-
Due from other funds	5,079	-
	<hr/>	<hr/>
Total Assets	\$ 41,170	\$ 172,922
	<hr/>	<hr/>
<u>Liabilities</u>		
Accounts payable	\$ 1,171	\$ -
Due to other governments	-	159,069
Funds held in trust	-	13,853
	<hr/>	<hr/>
Total Liabilities	\$ 1,171	\$ 172,922
	<hr/>	<hr/>
<u>Net Assets</u>		
Net assets held in trust for pooled participants	\$ 39,999	
	<hr/>	

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Family Service Collaborative Investment Trust</u>
<u>Additions</u>	
Contributions from participants	\$ 47,653
Investment earnings	
Interest	<u>603</u>
Total Additions	\$ 48,256
<u>Deductions</u>	
Pool participant withdrawals	<u>65,290</u>
Change in Net Assets	\$ (17,034)
Net Assets - Beginning of the Year	<u>57,033</u>
Net Assets - End of the Year	<u><u>\$ 39,999</u></u>

**NORMAN COUNTY
ADA, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010**

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2010. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Norman County was established February 17, 1881, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Joint Ventures

The County participates in joint ventures, related organizations, and jointly-governed organizations described in Notes 6.D., 6.E., and 6.F., respectively.

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 County. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net assets, the governmental activities: (a) are presented on a consolidated basis; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts: (1) invested in capital assets, (2) restricted net assets, and (3) 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.

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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 fund types:

The Children's Collaborative Investment Trust Fund accounts for the external pooled and non-pooled investments on behalf of the Children's Collaborative Serving Norman County Families.

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 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. Norman County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first and then unrestricted resources as needed, unless the County Board takes specific action to appropriate those unrestricted resources.

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 their fair value at December 31, 2010, 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 2010 were \$19,483.

2. External Investment Pools

Included in total cash and pooled investments are the assets held for the Norman County Children's Collaborative in an external investment pool. For the purposes of financial reporting, the Children's Collaborative portion of the County's pool of cash and investments is reported as an investment trust fund. Assets in the pool are reported at fair value based on quoted market prices. The pool is not subject to regulatory oversight, and the fair value of the position in the pool is the same as the pool shares. Fair value amounts are determined at year-end. The County has not provided or obtained any legally binding guarantees to support the value of the pool.

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. 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.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

No allowance has been made for uncollectible receivables.

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.

4. Inventories

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than the capitalization threshold and

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Capital Assets (Continued)

an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The government's capitalization threshold for capital assets is as follows:

Assets	Capitalization Threshold
Land	\$ 1
All other classes of assets	5,000

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

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

Assets	Years
Buildings	25 - 40
Improvements other than buildings	20 - 35
Public domain infrastructure	15 - 75
Furniture, equipment, and vehicles	3 - 15

6. Compensated Absences

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

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Deferred Revenue

All County funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, the face amount of the debt issued is reported as an other financing source.

9. 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.

10. 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.

**NORMAN COUNTY
ADA, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

Ditch Fund Deficits

Of 37 drainage systems, five have incurred expenditures in excess of their revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund balances of the Ditch Special Revenue and Debt Service funds as of December 31, 2010:

Account balances		\$	199,799
Account deficits			(17,093)
Total Fund Balances		\$	182,706

B. Excess of Expenditures Over Budget

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2010.

	Expenditures	Budget	Excess
General Fund	\$ 5,122,762	\$ 3,366,832	\$ 1,755,930
Special Revenue Funds			
Human Services	2,043,155	1,885,175	157,980
Solid Waste	369,996	351,067	18,929

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments follows:

Governmental activities			
Cash and pooled investments		\$	5,786,165
Fiduciary funds			
Cash and pooled investments			
Investment trust fund			36,065
Agency funds			172,922
Total Cash and Investments		\$	5,995,152

**NORMAN COUNTY
ADA, 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 does not have a deposit policy for custodial credit risk. As of December 31, 2010, the County's deposits were not exposed to custodial credit risk.

**NORMAN COUNTY
ADA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

During the year ended December 31, 2010, the County had no investments.

**NORMAN COUNTY
ADA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2010, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes	\$ 83,802	\$ -
Special assessments	283,881	248,520
Accounts	76,189	-
Interest	5,373	-
Due from other governments	1,829,917	-
Rent receivable	424	-
Total	\$ 2,279,586	\$ 248,520

3. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 788,977	\$ 115,406	\$ -	\$ 904,383
Construction in progress	-	1,082,404	-	1,082,404
Total capital assets not depreciated	\$ 788,977	\$ 1,197,810	\$ -	\$ 1,986,787
Capital assets depreciated				
Buildings	\$ 2,765,753	\$ -	\$ -	\$ 2,765,753
Machinery, furniture, and equipment	4,326,510	242,669	20,694	4,548,485
Infrastructure	58,290,972	769,532	-	59,060,504
Total capital assets depreciated	\$ 65,383,235	\$ 1,012,201	\$ 20,694	\$ 66,374,742
Less: accumulated depreciation for				
Buildings	\$ 1,240,593	\$ 67,727	\$ -	\$ 1,308,320
Machinery, furniture, and equipment	2,957,100	336,092	20,694	3,272,498
Infrastructure	14,260,673	1,086,567	-	15,347,240
Total accumulated depreciation	\$ 18,458,366	\$ 1,490,386	\$ 20,694	\$ 19,928,058
Total capital assets depreciated, net	\$ 46,924,869	\$ (478,185)	\$ -	\$ 46,446,684
Governmental Activities Capital Assets, Net	\$ 47,713,846	\$ 719,625	\$ -	\$ 48,433,471

**NORMAN COUNTY
ADA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

General government	\$	74,939
Public safety		56,349
Highways and streets, including depreciation of infrastructure assets		1,333,765
Human services		<u>25,333</u>
Total Depreciation Expense	\$	<u><u>1,490,386</u></u>

B. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2010, is as follows:

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Road and Bridge Special Revenue Fund	Other governmental funds	\$ 700
Investment Trust Fund	Human Services Special Revenue Fund	<u>5,079</u>
Total Due To/From Other Funds		<u><u>\$ 5,779</u></u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**NORMAN COUNTY
ADA, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2010, were as follows:

Accounts	\$	228,192
Salaries		20,935
Contracts		84,547
Due to other governments		147,913
Total Payables	\$	481,587

2. Deferred Revenue

Deferred revenue as of December 31, 2010, for the County is as follows:

	Deferred Unavailable	Deferred Unearned
Governmental Funds		
Taxes	\$ 67,023	\$ -
Special assessments	307,235	-
State-aid highway allotments	837,006	-
Charges for services	546	-
Grants	522,356	-
Total Governmental Funds	\$ 1,734,166	\$ -

3. Construction Commitments

The government has active construction projects as of December 31, 2010. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental activities		
Roads and bridges	\$ 912,463	\$ 413,281

**NORMAN COUNTY
ADA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Long-Term Debt

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2010
General obligation bonds					
2010A G.O. Watershed Bonds	2031	\$6,000 - \$15,000	1.00 - 5.25	\$ 247,300	\$ 247,300

5. Debt Service Requirements

Debt service requirements at December 31, 2010, were as follows:

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2011	\$ -	\$ 7,854
2012	6,000	9,332
2013	11,000	9,225
2014	11,000	9,049
2015	11,000	8,832
2016 - 2020	65,000	39,079
2021 - 2025	59,500	27,439
2026 - 2030	69,000	12,895
2031	14,800	389
Total	\$ 247,300	\$ 124,094

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ -	\$ 247,300	\$ -	\$ 247,300	\$ -
Net OPEB liability	45,704	38,925	-	84,629	-
Compensated absences	388,907	267,207	265,538	390,576	124,866
Total Long-Term Liabilities	\$ 434,611	\$ 553,432	\$ 265,538	\$ 722,505	\$ 124,866

**NORMAN COUNTY
ADA, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plan

Plan Description

All full-time and certain part-time employees of Norman County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund and the Public Employees Police and Fire Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each 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. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan

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4. Pension Plans

A. Defined Benefit Plan

Plan Description (Continued)

members and 1.7 percent for Coordinated Plan members for each year of service. For the Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service.

For General Employees Retirement Fund members whose annuity is calculated using Method 1, and all Public Employees Police and Fire 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 either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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 General Employees Retirement Fund and the Public Employees Police and Fire 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. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.4 percent.

**NORMAN COUNTY
ADA, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plan

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2010:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.00
Public Employees Police and Fire Fund	14.10

The County's contributions for the years ending December 31, 2010, 2009, and 2008, for the General Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
General Employees Retirement Fund	\$ 172,729	\$ 167,751	\$ 159,824
Public Employees Police and Fire Fund	38,354	38,644	36,135

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

B. Defined Contribution Plan

One Norman County Commissioner is 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 5.0 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.

**NORMAN COUNTY
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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, 2010, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 802	\$ 802
Percentage of covered payroll	5.0%	5.0%

Required contribution rates were 5.0 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

Norman County provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Norman County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2010, there were 75 participants in the plan, including 4 retirees.

Annual OPEB Cost and Net OPEB Obligation

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

**NORMAN COUNTY
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4. Pension Plans

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	\$	66,214
Interest on net OPEB obligation		2,057
Adjustment to ARC		(2,745)
		(2,745)
Annual OPEB cost (expense)	\$	65,526
Contributions made		(26,601)
		(26,601)
Increase in net OPEB obligation	\$	38,925
Net OPEB Obligation - Beginning of Year		45,704
		45,704
Net OPEB Obligation - End of Year	\$	84,629

The County's annual OPEB cost for December 31, 2010, was \$65,526. The percentage of annual OPEB cost contributed to the plan was 40.6 percent, and the net OPEB obligation for 2010 was \$84,629. The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and 2010 was as follows:

Fiscal Year-End	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	\$ 66,214	\$ 20,510	31.0%	\$ 45,704
December 31, 2010	65,526	26,601	40.6	84,629

Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial liability for benefits was \$508,463, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$508,463. The covered payroll (annual payroll of active employees covered by the plan) was \$2,750,246, and the ratio of the UAAL to the covered payroll was 18.5 percent.

**NORMAN COUNTY
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4. Pension Plans

C. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

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

Actuarial Methods and Assumptions

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

In the January 1, 2009, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Norman County's implicit rate of return on the General Fund. The annual health care cost trend is 9.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over eight years. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2010, was 28 years.

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5. 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. 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. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in 2010 and 2011. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

6. Summary of Significant Contingencies and Other Items

A. 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, in connection with the normal conduct of its affairs, is involved in various judgments, claims, and litigations; it is expected that the final settlement of these matters will not materially affect the financial statements of the County.

**NORMAN COUNTY
ADA, MINNESOTA**

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

B. Dalen Coulee Project

On February 21, 2002, Norman County entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, with Clay County. Clay County sold \$260,000 of bonds on behalf of the Wild Rice Watershed District for Dalen Coulee Project 40. Special assessments to pay for a portion of the bonds will be collected via Norman County. Norman County will remit the special assessment proceeds to Clay County.

C. Project 9

On July 21, 2005, Norman County entered into a joint powers agreement with Clay County, pursuant to Minn. Stat. § 471.59. Clay County sold \$830,000 of bonds on behalf of the Wild Rice Watershed District for Project 9. Special assessments to pay for a portion of the bonds will be collected via Norman County. Norman County will remit the special assessment proceeds to Clay County.

D. Joint Ventures

Tri-County Community Corrections

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

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

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

**NORMAN COUNTY
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6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Tri-County Community Corrections (Continued)

Tri-County Community Corrections' long-term debt consisted of \$236,268 for compensated absences, \$2,918 for lease purchases and \$83,204 for OPEB at December 1, 2009 (latest information available). Financing is provided by state, federal, and local grants; charges for services; and appropriations from member counties. Polk County, in an investment trust fund, reports the transactions of Tri-County Community Corrections on its financial statements. Norman County's contribution for 2010 was \$362,685.

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

Norman-Mahnomen Community Health Board

The Multi-County Nursing Service was established in 1997 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and included Becker, Mahnomen, and Norman Counties. On June 24, 2003, the Becker County Board passed a resolution to withdraw from the Multi-County Nursing Service as of January 1, 2005. On January 1, 2005, Norman and Mahnomen Counties amended the joint powers agreement forming the Multi-County Nursing Service and started doing business as Norman-Mahnomen Public Health. The purpose of Norman-Mahnomen Public Health is the development, implementation, and operation of public health services throughout the member counties.

Control of Norman-Mahnomen Public Health was vested in the Norman-Mahnomen Community Health Board, which consisted of six members. Norman and Mahnomen Counties each appoint three members.

In the event of withdrawal from the Norman-Mahnomen Community Health Board, the withdrawing county is not entitled to any reimbursement of funds contributed during the course of its membership, except to the extent of any surplus uncommitted monies remaining in the operation account upon expiration of the fiscal year of the county's withdrawal. Such surplus shall be distributed in the proportion that the withdrawing

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6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Norman-Mahnomen Community Health Board (Continued)

county's contribution bears to the aggregate contribution of all member parties for the year of withdrawal. Funds utilized for capital asset acquisition shall be paid only at the time of sale of such assets.

Norman-Mahnomen Public Health's long-term liabilities were \$29,033 at December 31, 2009 (latest information available). Financing is provided by state and federal grants, appropriations from member counties, charges for services, and miscellaneous revenues. Norman County's contribution for 2010 was \$90,632.

Complete financial information can be obtained from the Norman-Mahnomen Community Health Board, 15 East 2nd Avenue, Room 107, Ada, Minnesota 56510.

Norman County-Ada-Twin Valley Joint Airport Authority

The Norman County-Ada-Twin Valley Joint Airport Authority was established in 1976 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59. The purpose of the Norman County-Ada-Twin Valley Joint Airport Authority is the construction, development, and maintenance of the Norman County-Ada-Twin Valley Joint Airport. Minn. Stat. § 360.032 allows every municipality, through its governing body, to acquire property, real or personal, for the purpose of establishing, constructing, and enlarging airports. Control of the Norman County-Ada-Twin Valley Joint Airport is vested in the Norman County-Ada-Twin Valley Airport Authority, which consists of six members. As provided in the bylaws, the Norman County Board appoints two members, and each of the two City Councils appoints two members.

The joint powers agreement remains in force until any single member gives the other parties one-year's written notice of termination. Any party terminating the agreement shall transfer its interest in the real and personal assets to the remaining parties for consideration of one dollar.

Financing of the capital costs and operations is provided by state and federal grants, charges for services, and appropriations from Norman County and the Cities of Ada and Twin Valley. Norman County's contribution for 2010 was \$4,030.

**NORMAN COUNTY
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6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Norman County-Ada-Twin Valley Joint Airport Authority (Continued)

Complete financial statements for the Norman County-Ada-Twin Valley Joint Airport Authority can be obtained from Norman County Abstracting and Accounting, Inc., 18 East 4th Avenue, Ada, Minnesota 56510.

Northwest Minnesota Regional Radio Board

The Northwest Minnesota Regional Radio Board convening meeting was held February 6, 2008, pursuant to the authority conferred upon the member parties by Minn. Stat. §§ 471.59 and 403.39, and includes the City of Moorhead and Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnommen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties.

The purpose of the Northwest Minnesota Regional Radio Board is to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) owned and operated by the State of Minnesota.

Control of the Northwest Minnesota Regional Radio Board is vested in the Northwest Minnesota Regional Radio Board, which is composed of one Commissioner of each county appointed by their respective County Board and one City Council member from each city appointed by their respective City Council, as provided in the Northwest Minnesota Regional Radio Board's bylaws.

In the event of dissolution of the Northwest Minnesota Regional Radio Board, all property, assets, and funds of the Board shall be distributed to the parties of the agreement upon termination in direct proportion to their participation and contribution. Any city or county that has withdrawn from the agreement prior to termination of the Board shall share in the distribution of property, assets, and funds of the Board only to the extent they shared in the original expense.

The Northwest Minnesota Regional Radio Board has no long-term debt. Financing is provided by appropriations from member parties and by state and federal grants.

Complete financial information can be obtained from the Northwest Minnesota Regional Radio Board, c/o Greater Northwest EMS, 2301 Johanneson Avenue N.W., Suite 103, Bemidji, Minnesota 56601.

**NORMAN COUNTY
ADA, MINNESOTA**

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

E. Related Organizations

Ambulance Service

Norman County and the City of Ada entered into an agreement to establish an Ambulance Advisory Committee, effective March 5, 1991. The purpose of the Committee is to provide coordinated funding and delivery of ambulance services within Norman County.

Sand Hill River Watershed District

The Sand Hill River Watershed District was formed pursuant to Minn. Stat. § 103D.201, effective August 29, 1974, and includes land within Mahnomen, Norman, and Polk Counties. The purpose of the District is to conserve the natural resources of the state by land-use planning, flood control, the use of sound scientific principles for the protection of the public health and welfare, and the provident use of natural resources. Control of the District is vested in the Sand Hill River Watershed District Board of Managers, composed of five members appointed by the Polk County Board for staggered terms of three years each.

F. Jointly-Governed Organizations

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

Agassiz Recreational Trail Joint Powers Board

Clay, Norman, and Polk Counties entered into a joint powers agreement to establish the Agassiz Recreational Trail Joint Powers Board, effective February 9, 1993, and empowered under Minn. Stat. § 471.59. The purpose of the Board is to provide the construction, maintenance, and operation of a system of trails and pathways. The Board consists of two members appointed by each member county and one person appointed by the Norman County Soil and Water Conservation District.

**NORMAN COUNTY
ADA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations (Continued)

Wild Rice Watershed District

The Wild Rice Watershed District was established in 1969 pursuant to Minn. Stat. ch. 103D, and includes Becker, Clay, Clearwater, Mahnomen, Norman, and Polk Counties. The purpose of the Wild Rice Watershed District is to oversee watershed projects, conduct studies for future project planning, administer legal drainage systems, issue applications and permits, educate the public on conservation issues, and resolve disputes.

Control of the Watershed District is vested in the Board of Managers, composed of seven members appointed by the County Commissioners of Becker, Clay, Mahnomen, and Norman Counties. Norman County appoints three members, Clay County appoints two members, and the remaining counties each appoint one member.

Complete financial information can be obtained from the Wild Rice Watershed District office at 11 East 5th Avenue, Ada, Minnesota 56510.

Job Training Partnership Act Joint Powers Agreement

The Job Training Partnership Act Joint Powers Agreement was formed in July 1994 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Kittson, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Joint Powers Agreement is to designate the members of the Northwest Regional Development Commission's Board of Directors as the local elected officials to work with the Northwest Private Industry Council for the Northwest Service Delivery Area, including specific duties as listed in the Agreement.

In the event of dissolution of the Joint Powers Agreement, the net assets of the Joint Powers Board at that time shall be disposed of in accordance with law.

Financing is provided primarily from federal grants provided through the Job Training Partnership Act of 1982.

Complete financial information can be obtained from the Northwest Regional Development Commission, 115 South Main, Warren, Minnesota 56762.

**NORMAN COUNTY
ADA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations (Continued)

Minnesota Red River Basin of the North Joint Powers Agreement

The Minnesota Red River Basin of the North Joint Powers Board was established November 29, 1999, by an agreement between Norman County and 14 other counties. The agreement was made to serve as a focal point for land and water concerns for those counties surrounding the Minnesota Red River Basin. Each county is responsible for its proportionate share of the administrative budget.

Control is vested in a Joint Powers Board, comprising one Commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

In the event of termination of the agreement, any unexpended funds and surplus property shall be disposed of equally among the member counties. Norman County's contribution for 2010 was \$186.

Complete financial statements can be obtained from the offices of The International Coalition at 119 - 5th Street South, Moorhead, Minnesota 56560.

Children's Collaborative (Serving Norman County Families)

The Children's Collaborative (Serving Norman County Families) was established in 1999 under the authority of Minn. Stat. § 124D.23. The Collaborative includes Norman County Social Services, Ada-Borup Public Schools, Norman County East Public Schools, Norman County West Public Schools, Norman-Mahnomen Community Health Board, Northwestern Mental Health Center, and Tri-Valley Opportunity Council, Inc. The purpose of the Collaborative is to provide coordinated services and to commit resources to an integrated fund. Control of the Collaborative is vested in a Board of Directors, comprised of one member appointed by each member party.

In the event of withdrawal from the Collaborative, the withdrawing party shall give a 180-day notice. The withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to a refund of contributions made to the integrated fund or other fees paid to operate the Collaborative. The Board shall continue to exist if the Collaborative is terminated for the limited purpose of discharging the Collaborative's debts and liabilities, settling its affairs, and disposing of integrated fund assets, if any.

**NORMAN COUNTY
ADA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations

Children's Collaborative (Serving Norman County Families) (Continued)

Financing is provided by state and federal grants and contributions from its member parties. Complete financial information can be obtained from Norman County Social Services, 15 Second Avenue East, Ada, Minnesota 56510.

Northwest Workforce Service Area

The Northwest Workforce Service Area was formed in July 2000 under the authority of the Workforce Investment Act of 1998 (Public Law 105-22) and includes Kittson, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Service Area is to increase a participant's employment, retention, earnings, and occupational skill attainment, and result in improved workforce quality, reduced welfare dependency, and enhanced productivity and competitiveness.

Control of the Northwest Workforce Service Area is vested in the Northwest Private Industry Council/Workforce Council, comprising 18 members, with one representative from each of the seven counties, three members at large, and eight members representing local agencies. The joint powers agreement that created this Service Area terminated on June 30, 2002, and must be renewed by resolution of the participating County Boards. In the event of dissolution of the Service Area, unexpended funds will be disposed of in accordance with law.

The Northwest Workforce Service Area has no long-term debt. Financing is provided by state and local grants.

Complete financial information can be obtained from the Northwest Regional Development Commission, 115 South Main, Warren, Minnesota 56762.

**NORMAN COUNTY
ADA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations (Continued)

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Becker, Beltrami, Clay, Clearwater, Itasca, Kittson, Lake, Lake of the Woods, Mahnomon, Marshall, McLeod, Morrison, Norman, Pennington, Polk, Red Lake, and Roseau Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, which is composed of ten directors, each with an alternate, who are appointed annually by each respective County Board. Norman County's responsibility does not extend beyond making this appointment.

Agassiz Regional Library

The Agassiz Regional Library was formed pursuant to Minn. Stat. §§ 134.20 and 471.59, effective January 1, 1981, and includes Becker, Clay, Clearwater, Mahnomon, Norman, Polk, and Wilkin Counties. Control of the Library is vested in the Agassiz Regional Library Board, which has 23 members with staggered terms made up of the following: one member appointed by each Board of County Commissioners who may be a member of the board of commissioners; one member appointed by each participating city; and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. Norman County contributed \$79,955 to the Agassiz Regional Library during 2010.

Homeland Security and Emergency Management (HSEM) Region 3 Emergency Managers

The HSEM Region 3 Emergency Managers Joint Powers Board was formed pursuant to Minn. Stat. § 471.59, and includes Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomon, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The Board was established to engage in planning, training, and/or the purchase and use of equipment in order to better respond to emergencies and other disasters within the HSEM Region 3, specifically, within the jurisdictional boundaries of the 14 member counties. Control is vested in the HSEM Region 3 Emergency Managers Board, which is composed of 14 representatives appointed by each Board of County Commissioners. Norman County's responsibility does not extend beyond making this appointment.

REQUIRED SUPPLEMENTARY INFORMATION

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**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,415,335	\$ 2,415,335	\$ 2,206,300	\$ (209,035)
Special assessments	-	-	206,631	206,631
Licenses and permits	3,357	3,357	4,292	935
Intergovernmental	656,061	656,061	2,249,313	1,593,252
Charges for services	236,538	236,538	213,796	(22,742)
Investment earnings	35,500	35,500	18,880	(16,620)
Miscellaneous	55,857	55,857	132,235	76,378
Total Revenues	\$ 3,402,648	\$ 3,402,648	\$ 5,031,447	\$ 1,628,799
Expenditures				
Current				
General government				
Commissioners	\$ 175,380	\$ 175,380	\$ 181,148	\$ (5,768)
Courts	15,000	15,000	44,501	(29,501)
Law library	1,439	1,439	910	529
County auditor/treasurer	276,740	276,740	260,074	16,666
County assessor	197,441	197,441	187,486	9,955
Elections	30,400	30,400	31,422	(1,022)
Accounting and auditing	60,000	60,000	51,790	8,210
Data processing	64,500	64,500	55,665	8,835
Attorney	173,303	173,303	278,132	(104,829)
Victim assistance	61,315	61,315	61,278	37
Recorder	253,532	253,532	236,572	16,960
Planning and zoning	30,066	30,066	220,629	(190,563)
County buildings	130,600	130,600	187,339	(56,739)
Buildings and plant	153,921	153,921	134,195	19,726
Veterans service officer	71,581	71,581	70,776	805
Cemeteries	-	-	75	(75)
Unallocated - general government	92,100	92,100	134,748	(42,648)
Total general government	\$ 1,787,318	\$ 1,787,318	\$ 2,136,740	\$ (349,422)

**NORMAN COUNTY
ADA, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<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	\$ 676,722	\$ 676,722	\$ 734,211	\$ (57,489)
Coroner	16,750	16,750	9,172	7,578
Radio tower	4,500	4,500	-	4,500
Hazardous materials training	11,225	11,225	6,609	4,616
Safety coordinator	22,147	22,147	20,560	1,587
E-911 system	17,375	17,375	68,887	(51,512)
Community corrections	362,685	362,685	362,685	-
Civil defense	37,907	37,907	37,648	259
Police and fire	100	100	237	(137)
Other public safety	1,500	1,500	524	976
Total public safety	\$ 1,150,911	\$ 1,150,911	\$ 1,240,533	\$ (89,622)
Human services				
Senior citizen centers	\$ 9,464	\$ 9,464	\$ 6,692	\$ 2,772
Retired senior volunteer program	1,000	1,000	1,000	-
Total human services	\$ 10,464	\$ 10,464	\$ 7,692	\$ 2,772
Health				
Nursing service	\$ 90,632	\$ 90,632	\$ 97,085	\$ (6,453)
Ambulance	-	-	209,142	(209,142)
Total health	\$ 90,632	\$ 90,632	\$ 306,227	\$ (215,595)
Culture and recreation				
Historical society	\$ 7,650	\$ 7,650	\$ -	\$ 7,650
Agassiz trail project	-	-	860,554	(860,554)
Winter shows	800	800	800	-
County library	79,955	79,955	79,955	-
Celebrations	420	420	420	-
Snowmobile trails	-	-	118,521	(118,521)
Total culture and recreation	\$ 88,825	\$ 88,825	\$ 1,060,250	\$ (971,425)

**NORMAN COUNTY
ADA, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Conservation of natural resources				
Cooperative extension	\$ 109,196	\$ 109,196	\$ 124,806	\$ (15,610)
Soil and water conservation	60,200	60,200	62,215	(2,015)
Agricultural society	17,150	17,150	17,150	-
Forfeited tax	-	-	22,358	(22,358)
Weed control	46,450	46,450	2,939	43,511
Predator control	5,186	5,186	2,459	2,727
Water planning	-	-	58,673	(58,673)
Other	500	500	500	-
Total conservation of natural resources	\$ 238,682	\$ 238,682	\$ 291,100	\$ (52,418)
Economic development				
Community development	\$ -	\$ -	\$ 80,220	\$ (80,220)
Total Expenditures	\$ 3,366,832	\$ 3,366,832	\$ 5,122,762	\$ (1,755,930)
Excess of Revenues Over (Under) Expenditures	\$ 35,816	\$ 35,816	\$ (91,315)	\$ (127,131)
Fund Balance - January 1	4,156,116	4,156,116	4,156,116	-
Fund Balance - December 31	\$ 4,191,932	\$ 4,191,932	\$ 4,064,801	\$ (127,131)

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 773,765	\$ 773,765	\$ 721,707	\$ (52,058)
Intergovernmental	5,318,410	5,318,410	4,168,231	(1,150,179)
Charges for services	9,000	9,000	18,231	9,231
Miscellaneous	45,000	45,000	108,058	63,058
Total Revenues	\$ 6,146,175	\$ 6,146,175	\$ 5,016,227	\$ (1,129,948)
Expenditures				
Current				
Highways and streets				
Administration	\$ 347,935	\$ 347,935	\$ 340,166	\$ 7,769
Maintenance	1,538,985	1,538,985	1,858,996	(320,011)
Construction	3,878,875	3,878,875	2,149,267	1,729,608
Equipment and maintenance shop	486,310	486,310	524,480	(38,170)
Total highways and streets	\$ 6,252,105	\$ 6,252,105	\$ 4,872,909	\$ 1,379,196
Intergovernmental				
Highways and streets	-	-	271,804	(271,804)
Total Expenditures	\$ 6,252,105	\$ 6,252,105	\$ 5,144,713	\$ 1,107,392
Excess of Revenues Over (Under) Expenditures	\$ (105,930)	\$ (105,930)	\$ (128,486)	\$ (22,556)
Fund Balance - January 1	699,211	699,211	699,211	-
Increase (decrease) in reserved for inventories	-	-	18,375	18,375
Fund Balance - December 31	\$ 593,281	\$ 593,281	\$ 589,100	\$ (4,181)

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 509,843	\$ 509,843	\$ 463,656	\$ (46,187)
Intergovernmental	954,539	954,539	1,214,650	260,111
Charges for services	195,400	195,400	263,976	68,576
Miscellaneous	22,000	22,000	70,779	48,779
Total Revenues	\$ 1,681,782	\$ 1,681,782	\$ 2,013,061	\$ 331,279
Expenditures				
Current				
Human services				
Income maintenance	\$ 544,216	\$ 544,216	\$ 671,938	\$ (127,722)
Social services	1,340,959	1,340,959	1,371,217	(30,258)
Total Expenditures	\$ 1,885,175	\$ 1,885,175	\$ 2,043,155	\$ (157,980)
Excess of Revenues Over (Under) Expenditures	\$ (203,393)	\$ (203,393)	\$ (30,094)	\$ 173,299
Fund Balance - January 1	1,380,555	1,380,555	1,380,555	-
Fund Balance - December 31	\$ 1,177,162	\$ 1,177,162	\$ 1,350,461	\$ 173,299

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT A-4

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2009	\$ -	\$ 508,463	\$ 508,463	0.0%	\$2,750,246	18.5%

**NORMAN COUNTY
ADA, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2010**

1. Budgetary Information

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

On or before mid-July or August of each year, all departments and agencies submit requests for budget appropriations to the County Auditor-Treasurer so that a budget can be prepared. Before September 15, the proposed budget is presented to the Norman County Board for review. The Board continues to refine the budget, holds departmental budget meetings, and a final budget must be prepared and adopted no later than December 31.

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

Encumbrances (for example, purchase orders and 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 Budget

The following is a summary of individual major funds that had expenditures in excess of budget for the year ended December 31, 2010.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 5,122,762	\$ 3,366,832	\$ 1,755,930
Human Services Special Revenue Fund	2,043,155	1,885,175	157,980

**NORMAN COUNTY
ADA, MINNESOTA**

3. Other Postemployment Benefits Funding Status

The County implemented the requirements of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the fiscal year ended December 31, 2009. See Note 4.C. to the financial statements for more information.

GASB Statement 45 requires a Schedule of Funding Progress - Other Postemployment Benefits for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported.

Currently, only one actuarial valuation is available. Future reports will provide additional trend analysis to meet the three most recent valuation funding status requirements as the information becomes available.

SUPPLEMENTARY INFORMATION

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**NORMAN COUNTY
ADA, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

County Homes Fund - to account for the collection of rents and payment of expenses on small homes owned by Norman County that are rented to senior citizens.

Ditch Fund - to account for the financing and costs relating to all County ditches.

Gravel Reserve Tax Fund - to account for the proceeds of a special gravel removal or occupation tax which is restricted to expenditures for the restoration of abandoned gravel pits.

Solid Waste Fund - to account for the financing and costs relating to the Fosston Incinerator, demolition landfill, and public education. Financing is provided by special assessments, charges for services, and intergovernmental revenues designated for environmental purposes.

DEBT SERVICE FUND

Ditch Fund - to account for the accumulation of resources and the payment of principal and interest of ditch bond issues.

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**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	<u>Special Revenue (Statement B-1)</u>	<u>Ditch Debt Service</u>	<u>Total (Exhibit 3)</u>
<u>Assets</u>			
Cash and pooled investments	\$ 228,442	\$ 53,100	\$ 281,542
Undistributed cash in agency funds	16,341	-	16,341
Taxes receivable			
Current	312	-	312
Prior	292	-	292
Special assessments receivable			
Current	106	-	106
Prior	92	-	92
Deferred	54,263	194,257	248,520
Accounts receivable	38,861	-	38,861
Due from other governments	3,239	-	3,239
Rent receivable	424	-	424
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 342,372</u>	<u>\$ 247,357</u>	<u>\$ 589,729</u>
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 15,885	\$ -	\$ 15,885
Due to other funds	700	-	700
Due to other governments	16,820	-	16,820
Customer deposits	3,166	-	3,166
Deferred revenue - unavailable	87,352	189,278	276,630
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>\$ 123,923</u>	<u>\$ 189,278</u>	<u>\$ 313,201</u>
 Fund Balances			
Unreserved			
Designated for debt service	\$ -	\$ 58,079	\$ 58,079
Undesignated	218,449	-	218,449
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>\$ 218,449</u>	<u>\$ 58,079</u>	<u>\$ 276,528</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 342,372</u>	<u>\$ 247,357</u>	<u>\$ 589,729</u>

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Special Revenue (Statement B-2)</u>	<u>Ditch Debt Service</u>	<u>Total (Exhibit 5)</u>
Revenues			
Taxes	\$ 27,906	\$ -	\$ 27,906
Special assessments	41,612	58,079	99,691
Licenses and permits	400	-	400
Intergovernmental	62,478	-	62,478
Charges for services	237,218	-	237,218
Miscellaneous	32,800	-	32,800
	<u>32,800</u>	<u>-</u>	<u>32,800</u>
Total Revenues	<u>\$ 402,414</u>	<u>\$ 58,079</u>	<u>\$ 460,493</u>
Expenditures			
Current			
General government	\$ 1,000	\$ -	\$ 1,000
Sanitation	369,996	-	369,996
Human services	10,917	-	10,917
Conservation of natural resources	261,395	-	261,395
	<u>261,395</u>	<u>-</u>	<u>261,395</u>
Total Expenditures	<u>\$ 643,308</u>	<u>\$ -</u>	<u>\$ 643,308</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (240,894)</u>	<u>\$ 58,079</u>	<u>\$ (182,815)</u>
Other Financing Sources (Uses)			
Bonds issued	247,300	-	247,300
	<u>247,300</u>	<u>-</u>	<u>247,300</u>
Net Change in Fund Balance	<u>\$ 6,406</u>	<u>\$ 58,079</u>	<u>\$ 64,485</u>
Fund Balance - January 1	<u>212,043</u>	<u>-</u>	<u>212,043</u>
Fund Balance - December 31	<u><u>\$ 218,449</u></u>	<u><u>\$ 58,079</u></u>	<u><u>\$ 276,528</u></u>

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT C-1

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2010**

	County Homes	Ditch	Gravel Reserve Tax	Solid Waste	Total (Statement A-1)
<u>Assets</u>					
Cash and pooled investments	\$ 21,895	\$ 124,130	\$ 67,198	\$ 15,219	\$ 228,442
Undistributed cash in agency funds	-	1,164	-	15,177	16,341
Taxes receivable					
Current	-	-	-	312	312
Prior	-	-	-	292	292
Special assessments receivable					
Current	-	106	-	-	106
Prior	-	92	-	-	92
Deferred	-	54,263	-	-	54,263
Accounts receivable	-	-	1,856	37,005	38,861
Due from other governments	300	-	-	2,939	3,239
Rent receivable	424	-	-	-	424
	\$ 22,619	\$ 179,755	\$ 69,054	\$ 70,944	\$ 342,372
Total Assets	\$ 22,619	\$ 179,755	\$ 69,054	\$ 70,944	\$ 342,372
 <u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 230	\$ -	\$ -	\$ 15,655	\$ 15,885
Due to other funds	-	700	-	-	700
Due to other governments	502	-	-	16,318	16,820
Customer deposits	3,166	-	-	-	3,166
Deferred revenue - unavailable	-	54,428	-	32,924	87,352
	\$ 3,898	\$ 55,128	\$ -	\$ 64,897	\$ 123,923
Total Liabilities	\$ 3,898	\$ 55,128	\$ -	\$ 64,897	\$ 123,923
 Fund Balances					
Unreserved					
Undesignated	18,721	124,627	69,054	6,047	218,449
	\$ 22,619	\$ 179,755	\$ 69,054	\$ 70,944	\$ 342,372
Total Liabilities and Fund Balances	\$ 22,619	\$ 179,755	\$ 69,054	\$ 70,944	\$ 342,372

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT C-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>County Homes</u>	<u>Ditch</u>	<u>Gravel Reserve Tax</u>	<u>Solid Waste</u>	<u>Total (Statement A-2)</u>
Revenues					
Taxes	\$ -	\$ -	\$ 4,640	\$ 23,266	\$ 27,906
Special assessments	-	41,612	-	-	41,612
Licenses and permits	-	-	-	400	400
Intergovernmental	-	-	-	62,478	62,478
Charges for services	-	5	-	237,213	237,218
Miscellaneous	32,800	-	-	-	32,800
Total Revenues	\$ 32,800	\$ 41,617	\$ 4,640	\$ 323,357	\$ 402,414
Expenditures					
Current					
General government	\$ -	\$ 1,000	\$ -	\$ -	\$ 1,000
Sanitation	-	-	-	369,996	369,996
Human services	10,917	-	-	-	10,917
Conservation of natural resources	-	261,395	-	-	261,395
Total Expenditures	\$ 10,917	\$ 262,395	\$ -	\$ 369,996	\$ 643,308
Excess of Revenues Over (Under) Expenditures	\$ 21,883	\$ (220,778)	\$ 4,640	\$ (46,639)	\$ (240,894)
Other Financing Sources (Uses)					
Proceeds from sale of bonds	-	247,300	-	-	247,300
Net Change in Fund Balance	\$ 21,883	\$ 26,522	\$ 4,640	\$ (46,639)	\$ 6,406
Fund Balance - January 1	(3,162)	98,105	64,414	52,686	212,043
Fund Balance - December 31	\$ 18,721	\$ 124,627	\$ 69,054	\$ 6,047	\$ 218,449

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT C-3

**BUDGETARY COMPARISON SCHEDULE
COUNTY HOMES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ 26,400	\$ 26,400	\$ 32,800	\$ 6,400
Expenditures				
Current				
Human services				
Low-income housing	15,700	15,700	10,917	4,783
Excess of Revenues Over (Under)				
Expenditures	\$ 10,700	\$ 10,700	\$ 21,883	\$ 11,183
Fund Balance - January 1	(3,162)	(3,162)	(3,162)	-
Fund Balance - December 31	\$ 7,538	\$ 7,538	\$ 18,721	\$ 11,183

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT C-4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 95,492	\$ 95,492	\$ 23,266	\$ (72,226)
Licenses and permits	400	400	400	-
Intergovernmental	59,508	59,508	62,478	2,970
Charges for services	257,631	257,631	237,213	(20,418)
Total Revenues	\$ 413,031	\$ 413,031	\$ 323,357	\$ (89,674)
Expenditures				
Current				
Sanitation				
Recycling	\$ 66,552	\$ 66,552	\$ 89,203	\$ (22,651)
Landfill	22,000	22,000	22,000	-
Fosston incinerator	245,517	245,517	231,221	14,296
Household hazardous waste	16,998	16,998	27,572	(10,574)
Total Expenditures	\$ 351,067	\$ 351,067	\$ 369,996	\$ (18,929)
Excess of Revenues Over (Under)				
Expenditures	\$ 61,964	\$ 61,964	\$ (46,639)	\$ (108,603)
Fund Balance - January 1	52,686	52,686	52,686	-
Fund Balance - December 31	\$ 114,650	\$ 114,650	\$ 6,047	\$ (108,603)

**NORMAN COUNTY
ADA, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

State Revenue - to account for the collection and payment of amounts due to the state.

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

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**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT D-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ (1,138)	\$ 335,403	\$ 313,195	\$ 21,070
<u>Liabilities</u>				
Due to other governments	\$ (1,138)	\$ 335,403	\$ 313,195	\$ 21,070
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 171,485	\$ 3,897,013	\$ 3,916,646	\$ 151,852
<u>Liabilities</u>				
Due to other governments	\$ 160,040	\$ 3,867,691	\$ 3,889,732	\$ 137,999
Funds held in trust	11,445	29,322	26,914	13,853
Total Liabilities	\$ 171,485	\$ 3,897,013	\$ 3,916,646	\$ 151,852
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 170,347	\$ 4,232,416	\$ 4,229,841	\$ 172,922
<u>Liabilities</u>				
Due to other governments	\$ 158,902	\$ 4,203,094	\$ 4,202,927	\$ 159,069
Funds held in trust	11,445	29,322	26,914	13,853
Total Liabilities	\$ 170,347	\$ 4,232,416	\$ 4,229,841	\$ 172,922

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SCHEDULES

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**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT E-1

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2010**

	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Fair Value</u>
Deposits and Investments			
Undesignated			
Cash on Hand	N/A	N/A	\$ 4,800
Non-interest-bearing checking (1)	N/A	Continuous	3,996
Interest-bearing checking (3)	0.03% to 0.79%	Continuous	2,465,196
Money market checking (1)	0.35%	Continuous	3,000,000
Certificates of deposit (1)	1.05%	June 30, 2011	<u>500,000</u>
Total undesignated			\$ 5,973,992
Designated for real estate tax shortfall			
Certificates of deposit (2)	0.60% to 0.65%	December 22, 2011	<u>21,160</u>
Total Deposits and Investments			<u>\$ 5,995,152</u>

**NORMAN COUNTY
ADA, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE AND DITCH DEBT SERVICE FUNDS
DECEMBER 31, 2010**

	Assets					
	Cash and Pooled Investments	Undistributed Cash	Special Assessments Receivable			Total
			Current	Prior	Deferred	
County Ditches						
5	\$ (11,296)	\$ -	\$ -	\$ -	\$ 8,448	\$ (2,848)
6	645	2	3	-	301	951
7	12,440	6	-	11	-	12,457
8	712	4	-	-	1,400	2,116
9	4,595	428	-	-	2,415	7,438
14	590	-	-	-	605	1,195
17	1,439	15	-	5	320	1,779
22	2,841	72	-	-	2,116	5,029
23	2,896	-	-	-	202	3,098
24	1,678	-	-	-	326	2,004
25	5,536	-	-	-	-	5,536
26	87	-	-	-	-	87
28 & 3	407	-	-	-	-	407
29	377	17	26	-	1,495	1,915
29 Lat. 1	1,630	-	-	-	-	1,630
31	3,810	-	-	-	298	4,108
33	24,404	2	-	44	-	24,450
34	12,119	17	-	-	505	12,641
36	1,510	20	-	-	663	2,193
39	(715)	-	-	-	769	54
40	(722)	43	-	-	3,352	2,673
41	1,609	-	-	-	-	1,609
42	19,281	-	-	-	-	19,281
46	772	-	-	-	303	1,075
47	10,901	161	26	5	14,418	25,511
49	1,748	9	33	10	511	2,311
62	1,444	10	18	16	282	1,770
65	1,636	77	-	-	-	1,713
69	3,400	-	-	-	-	3,400
73	6,687	24	-	-	1,963	8,674
75	(4,241)	227	-	1	5,534	1,521
Borup State Ditch	79	-	-	-	-	79
Judicial Ditches						
54 South	6,494	-	-	-	8,037	14,531
55	9,354	30	-	-	-	9,384
57	(17)	-	-	-	-	(17)
Watershed Ditches						
Project 43 - Perley	11,840	-	-	-	20,716	32,556
Project 44 - Hendum	41,260	-	-	-	173,541	214,801
Total	\$ 177,230	\$ 1,164	\$ 106	\$ 92	\$ 248,520	\$ 427,112

EXHIBIT E-2

Liabilities			Fund Balances			Total Liabilities and Fund Balances
Due to Other Funds	Deferred Revenue	Total	Designated for Debt Service	Unreserved Undesignated	Total	
\$ 194	\$ 8,448	\$ 8,642	\$ -	\$ (11,490)	\$ (11,490)	\$ (2,848)
-	301	301	-	650	650	951
-	11	11	-	12,446	12,446	12,457
-	1,400	1,400	-	716	716	2,116
-	2,415	2,415	-	5,023	5,023	7,438
-	605	605	-	590	590	1,195
89	326	415	-	1,364	1,364	1,779
-	2,116	2,116	-	2,913	2,913	5,029
-	202	202	-	2,896	2,896	3,098
-	326	326	-	1,678	1,678	2,004
20	-	20	-	5,516	5,516	5,536
-	-	-	-	87	87	87
-	-	-	-	407	407	407
-	1,493	1,493	-	422	422	1,915
-	-	-	-	1,630	1,630	1,630
-	298	298	-	3,810	3,810	4,108
-	44	44	-	24,406	24,406	24,450
-	505	505	-	12,136	12,136	12,641
-	663	663	-	1,530	1,530	2,193
-	769	769	-	(715)	(715)	54
179	3,352	3,531	-	(858)	(858)	2,673
-	-	-	-	1,609	1,609	1,609
-	-	-	-	19,281	19,281	19,281
-	303	303	-	772	772	1,075
218	14,449	14,667	-	10,844	10,844	25,511
-	553	553	-	1,758	1,758	2,311
-	315	315	-	1,455	1,455	1,770
-	-	-	-	1,713	1,713	1,713
-	-	-	-	3,400	3,400	3,400
-	1,963	1,963	-	6,711	6,711	8,674
-	5,534	5,534	-	(4,013)	(4,013)	1,521
-	-	-	-	79	79	79
-	8,037	8,037	-	6,494	6,494	14,531
-	-	-	-	9,384	9,384	9,384
-	-	-	-	(17)	(17)	(17)
-	20,286	20,286	12,270	-	12,270	32,556
-	168,992	168,992	45,809	-	45,809	214,801
\$ 700	\$ 243,706	\$ 244,406	\$ 58,079	\$ 124,627	\$ 182,706	\$ 427,112

**NORMAN COUNTY
ADA, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE AND DITCH DEBT SERVICE FUNDS
DECEMBER 31, 2010**

	Assets					Total
	Cash and Pooled Investments	Undistributed Cash	Special Assessments Receivable			
			Current	Prior	Deferred	
Presented as						
Ditch Special Revenue Fund	\$ 124,130	\$ 1,164	\$ 106	\$ 92	\$ 54,263	\$ 179,755
Ditch Debt Service Fund	53,100	-	-	-	194,257	247,357
Total	\$ 177,230	\$ 1,164	\$ 106	\$ 92	\$ 248,520	\$ 427,112

EXHIBIT E-2
(Continued)

<u>Due to Other Funds</u>	<u>Liabilities</u>		<u>Fund Balances</u>			<u>Total Liabilities and Fund Balances</u>
	<u>Deferred Revenue</u>	<u>Total</u>	<u>Designated for Debt Service</u>	<u>Unreserved Undesignated</u>	<u>Total</u>	
\$ 700	\$ 54,428	\$ 55,128	\$ -	\$ 124,627	\$ 124,627	\$ 179,755
<u>-</u>	<u>189,278</u>	<u>189,278</u>	<u>58,079</u>	<u>-</u>	<u>58,079</u>	<u>247,357</u>
<u>\$ 700</u>	<u>\$ 243,706</u>	<u>\$ 244,406</u>	<u>\$ 58,079</u>	<u>\$ 124,627</u>	<u>\$ 182,706</u>	<u>\$ 427,112</u>

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT E-3

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Shared Revenue

State

Highway users tax	\$ 3,110,264
County program aid	545,772
PERA rate reimbursement	13,183
Disparity reduction aid	15,682
Police aid	33,092
Market value credit	246,571
Market value credit - mobile home	785
	785

Total shared revenue **\$ 3,965,349**

Reimbursement for Services

State

Minnesota Department of Human Services	\$ 219,041
	219,041

Payments

Local

Payments in lieu of taxes	\$ 25,734
	25,734

Grants

State

Minnesota Department/Board of Corrections	\$ 195
Public Safety	250,581
Transportation	6,818
Natural Resources	587,512
Historical Society	100,000
Human Services	374,167
Water and Soil Resources	48,742
Office of Environmental Assistance	55,950
Peace Officer Standards and Training Board	1,302
	1,302

Total state **\$ 1,425,267**

Federal

Department of Agriculture	\$ 61,251
Commerce	59,774
Housing and Urban Development	72,667
Justice	4,782
Transportation	1,099,709
Health and Human Services	493,219
Homeland Security	267,879
	267,879

Total federal **\$ 2,059,281**

Total state and federal grants **\$ 3,484,548**

Total Intergovernmental Revenue **\$ 7,694,672**

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT E-4

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services		
Supplemental Nutrition Assistance Program (SNAP) Cluster		
State Administrative Matching Grants for SNAP	10.561	\$ 59,783
State Administrative Matching Grants for SNAP - ARRA	10.561	<u>1,468</u>
Total U.S. Department of Agriculture		<u>\$ 61,251</u>
U.S. Department of Commerce		
Passed Through Minnesota Department of Public Safety		
Public Safety Interoperable Communications Grant Program	11.555	<u>\$ 59,774</u>
U.S. Department of Housing and Urban Development		
Passed Through Minnesota Department of Employment and Economic Development		
Community Development Block Grants	14.228	<u>\$ 72,667</u>
U.S. Department of Justice		
Direct		
Northern Border Prosecution Initiative Program	16.814	<u>\$ 4,782</u>
U.S. Department of Transportation		
Highway Planning and Construction Cluster		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	\$ 697,112
Passed Through Minnesota Department of Natural Resources		
Recreational Trails Program	20.219	<u>377,866</u>
Total U.S. Department of Transportation		<u>\$ 1,074,978</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	\$ 4,834
Temporary Assistance for Needy Families	93.558	52,007
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	88,866
Child Support Enforcement - ARRA	93.563	9,406
Refugee and Entrant Assistance - State-Administered Programs	93.566	77
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	4,740
Child Welfare Services - State Grants	93.645	1,754

**NORMAN COUNTY
ADA, MINNESOTA**

**EXHIBIT E-4
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services (Continued)		
Foster Care Title IV-E Cluster		
Foster Care Title IV-E	93.658	46,673
Foster Care Title IV-E - ARRA	93.658	992
Social Services Block Grant	93.667	85,549
Chafee Foster Care Independence Program	93.674	4,300
Children's Health Insurance Program	93.767	90
Medical Assistance Program	93.778	189,545
Passed Through Minnesota Department of Human Services and Polk County Block Grants for Community Mental Health Services	93.958	<u>4,386</u>
Total U.S. Department of Health and Human Services		\$ <u>493,219</u>
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State		
Help America Vote Act Requirements Payments	90.401	\$ <u>13,376</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 405,042
Emergency Management Performance Grant	97.042	16,897
Cooperating Technical Partners	97.045	<u>192,836</u>
Total U.S. Department of Homeland Security		\$ <u>614,775</u>
Total Federal Awards		\$ <u><u>2,394,822</u></u>

**NORMAN COUNTY
ADA, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Norman 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 Norman County under programs of the federal government for the year ended December 31, 2010. 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 Norman County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Norman 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 grant numbers were not assigned by the pass-through agencies.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 2,059,281
Grants received more than 60 days after year-end, deferred in 2010	
Highway Planning and Construction	35,095
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	346,896
Grant expended in 2009, recognized as revenue in 2010	
Highway Planning and Construction	(59,826)
Grant received in 2006, spent in 2010	
Help America Vote Act	13,376
	<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 2,394,822</u>

**NORMAN COUNTY
ADA, MINNESOTA**

5. Subrecipients

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

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
20.219	Recreational Trails Program	\$ 377,866
97.045	Cooperating Technical Partners	192,836
	Total	<u>\$ 570,702</u>

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.

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**NORMAN COUNTY
ADA, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Norman County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Norman 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*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Norman County were disclosed during the audit.
- D. A significant deficiency relating to the audit of the major federal award programs is reported in the "Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133." The significant deficiency is not a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for Norman County expresses an unqualified opinion.
- F. A finding relative to a major federal award program for Norman County was reported as required by Section 510(a) of OMB Circular A-133.
- G. The major programs are:
 - Highway Planning and Construction Cluster
 - Highway Planning and Construction CFDA #20.205
 - Recreational Trails Program CFDA #20.219
 - Social Services Block Grant CFDA #93.667
 - Cooperating Technical Partners CFDA #97.045
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Norman 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

96-6 Segregation of Duties

Due to the limited number of personnel within several Norman County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. The Auditor-Treasurer's Office generally tries to segregate the record-keeping function from the custody function. However, due to breaks, vacations, and illness, staff assigned record-keeping responsibilities may be required to assist in receipting collections, and staff assigned the custody functions may be required to assist in posting. The smaller fee offices generally have one person making the collections, recording those collections, and making the deposits to the Auditor-Treasurer's Office. This is not unusual in operations the size of Norman County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view, increasing the risk that errors or irregularities may occur and not be detected in a timely manner.

We recommend that Norman County's management be aware of the lack of segregation of duties within the Auditor-Treasurer's Office and other fee offices and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

Client's Response:

There is really not much we can do about this. We will continue to segregate duties the best we can.

06-1 Preparation of Financial Statements

Norman 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.

Norman County has established controls and procedures for the recording, processing, and summarizing of its accounting data used in the preparation of its 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 control over the preparation of financial statements in accordance with GAAP.

We recommend Norman County obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If Norman County still intends to have staff from the Office of the State Auditor assist in preparation then, at a minimum, the County must identify and train individuals to obtain the expertise to review, understand, and approve the County's financial statements, including notes. As an alternative, the County could consider hiring an outside consultant to assist in preparing its basic financial statements.

Client's Response:

We will continue to look into this.

06-2 Audit Adjustment

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.

During our audit, we identified an adjustment in the Ditch Special Revenue Fund to reclassify \$247,300 of proceeds from the sale of bonds incorrectly posted to the general ledger as charges for services.

Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements.

We recommend the County establish review procedures to ensure all postings to the general ledger and supporting schedules are accurate and complete.

Client's Response:

We had not dealt with bonds as long as the present employees have been here. We weren't sure how to handle it. Now we know, and it will not happen again.

ITEMS ARISING THIS YEAR

10-1 Documenting and Monitoring Internal Controls

County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided. Although the County may informally assess risks and adjust internal control procedures to address those risks, there are no formal procedures or documentation of those procedures in place.

At a minimum, the following significant internal control areas should be documented:

- cash and investment activities;
- capital assets (capitalization process and related depreciation);
- major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items);
- expenditure/expense processing;
- payroll; and
- inventories.

We recommend that County management document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

We have our committee meeting quarterly again now.

10-2 Schedule of Expenditures of Federal Awards

Norman County does not prepare a Schedule of Expenditures of Federal Awards (SEFA), nor does it adequately identify federal programs by amount received and expended, federal grantor agency, pass-through agency, and Catalog of Federal Domestic Assistance (CFDA) title and number as required under OMB Circular A-133.

This condition results in a weakness in internal control over financial statement preparation and reporting of federal financial assistance by the County. Because the County has not developed a system for properly identifying all federal financial assistance, the SEFA must be prepared by the auditors who cannot be considered part of the County's internal control.

OMB Circular A-133, Subpart C, § 300, lists auditee responsibilities which include: (1) identifying all federal awards received and expended and the federal programs under which they were received; and (2) preparing appropriate financial statements, including the SEFA.

We recommend that Norman County management develop a system and written procedures that will allow staff to adequately accumulate all information needed to be included in the SEFA. This should include, for each federal award, determination of the correct program CFDA title, award number and year, federal grantor agency, pass-through agency, amount received and expended, and whether American Recovery and Reinvestment Act (ARRA) funding is involved. The federal CFDA website is available to assist in this process. The County should also reconcile the SEFA amounts to the general ledger and financial statements.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

10-3 Identification of Federal Awards - Cooperating Technical Partners Grant - CFDA #97.045

Norman County did not adequately identify amounts received and expended of \$111,594 for the Cooperating Technical Partners Grant CFDA #97.045 as federal in the general ledger. The expenditures were identified as contract agreement payments within the Planning and Zoning Department. The federal revenue associated with these expenditures was incorrectly posted to two separate state revenue accounts in the general ledger. Audit adjustments were also made to recognize additional payables and expenditures of \$81,242 related to the Cooperating Technical Partners Grant. If the SEFA preparation had been based only on the descriptions provided in the general ledger, the federal program would have been missed, and the expenditures reported in the SEFA would have been materially understated by \$192,836.

The Norman County Environmental Service Officer is responsible for monitoring the subrecipient of the Cooperating Technical Partners Grant and preparing the requests for reimbursements submitted to the state. However, due to a breakdown in communications or other controls, the grant was not properly identified as federal by County staff in the general ledger.

OMB Circular A-133, Subpart C, § 300, indicates auditee responsibilities include identification of all federal awards received and expended and the federal programs under which they were received and preparation of the SEFA.

We recommend Norman County management develop a system and written procedures that will allow staff to correctly identify and classify all federal financial assistance received and expended. Procedures should include determination of the correct program CFDA number, revenue source, and program name.

Corrective Action Plan:

Contact Person Responsible for Corrective Action:

Josh Holte, Environmental Service Officer

Action Planned:

Josh started working for Norman County in 2011 and was not aware of this. The Auditor-Treasurer's Office will work with him to see that this doesn't happen again.

Completion Date:

Completion date will be in 2011.

PREVIOUSLY REPORTED ITEM RESOLVED

Subrecipient Monitoring (CFDA #20.219) (09-1)

Norman County, acting as the pass-through entity, was awarded a Recreational Trails Program grant. This grant was passed through to the Agassiz Recreational Trail Board. Norman County was unable to provide any documentation that any monitoring procedures were being performed.

Resolution

Norman County now reviews documentation obtained from the Agassiz Recreational Trail Board that documents expenditures for the Recreational Trails Program grant before requesting reimbursement.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 Ditch Cash Balance Deficits

Five of the 37 individual ditch systems had cash deficits totaling \$16,991 at December 31, 2010, with the largest being \$11,296. Provided the fund has money for that purpose, Minn. Stat. § 385.31 permits payment of expenditures. As allowed by Minn. Stat. § 103E.655, subd. 2, loans may be made from ditch systems with surplus funds or from the General Fund to a ditch system with insufficient cash to pay expenditures against it. This statute requires the loan to be repaid with interest.

Allowing a ditch fund to maintain a cash deficit constitutes an interest-free loan and is not in compliance with Minnesota law.

We recommend the County eliminate the individual ditch system cash deficits by borrowing from an eligible fund with a surplus cash balance and repay the loan with interest, or by levying assessments pursuant to Minn. Stat. § 103E.735, which permits the accumulation of a surplus balance for future repairs and maintenance costs of a ditch system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

Client's Response:

We continue to work on this problem.

06-4 Collateral Assignments

Deposits in excess of the FDIC insurance coverage with Bank of the West are secured with pledged collateral; however, the County could not provide current documentation of a perfected security interest in the pledged collateral. As a result of prior findings, the County Auditor-Treasurer obtained a new board resolution, but that resolution does not approve the pledge of collateral to Norman County. Under the new resolution, the bank board merely delegates the authority to give security to certain bank employees; it does not (as required by FIRREA) approve an assignment of bank assets to Norman County.

In a Federal Appeals Court decision, the Court ruled that if a municipality fails to perfect its interest in pledged collateral under federal law, its right to such collateral in the event of default is not enforceable.

We recommend that the Norman County Auditor-Treasurer obtain current documentation of compliance with FIRREA from its depositories to ensure a perfected security interest in the collateral pledged.

Client's Response:

We have been in contact with this bank and hope to resolve this problem in 2011.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

09-2 Ditch Fund Balance Deficits

Five of the 37 individual ditch systems had deficit unreserved, undesignated fund balances as of December 31, 2010, totaling \$17,093, the largest being \$11,490. Three of the ditch systems have sufficient current levies to cover the deficits, however, two of the ditch systems do not. As provided by Minn. Stat. § 103E.735, subd. 1, a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

We recommend that the County eliminate the ditch system fund balance deficits by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus balance to provide for the repair and maintenance costs of a ditch system.

Client's Response:

We continue to work on this.

C. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for Norman County for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and 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 are reserved, unreserved-designated, and unreserved-undesignated. Statement 54 replaces these components with 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 a 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 the other classifications.

The County should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The County can start with the following steps:

- review the requirements of GASB Statement 54;
- review current fund balances and compare to the new classifications;
- reclassify January 1, 2011, fund balance using the new classifications;
- review/update/prepare a comprehensive fund balance policy;
- prepare appropriate Board resolutions to commit fund balance; and
- if the County Board intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

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 the new standard. The new definition for a special revenue fund could have significant impact on the County's current fund classifications.

GASB Statement 54 provides a new and clearer description of when it is appropriate to account for an activity using a special revenue fund. Special revenue funds are used to report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects, where the restricted or committed revenue sources comprise a substantial portion of the fund's resources, and are expected to continue to do so in the future. The standard does not define substantial portion, however most recommendations are generally that the restricted or committed revenues should comprise at least 35 to 50 percent of total fund revenues. Under this definition, it is possible that some current special revenue funds will no longer meet the requirements for special revenue fund treatment. The County's management should review the County's special revenue funds to ensure these funds continue to warrant treatment as special revenue funds.

The County's management should perform the following steps prior to December 31, 2011:

- prepare a list of the County's special revenue funds;
- determine the sources of revenues for each of those funds;
- identify whether any of those revenues are restricted or committed;
- determine if these restricted or committed revenues represent a substantial portion of the fund's revenues and are expected to continue to be a substantial source of revenues;
 - if yes, the fund may continue to be classified as a special revenue fund;
 - if not, determine whether the County will combine that fund with the general fund or with a similar purpose special revenue fund that meets the new definition;
- code revenues in the general ledger by source constraints--restricted, committed, assigned, or unassigned; and
- determine if there needs to be a restatement of beginning fund balances.

Additional implementation steps could include: informing any component units that they also will need to meet the requirements; deciding on how fund balance will be presented in the financials, for example, detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at: http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf.

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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
Norman County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Norman County as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 14, 2011. 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 Norman 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 96-6, 06-1, 06-2, 10-1, and 10-2, that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Norman 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 Political Subdivisions*, 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 Political Subdivisions* 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 Norman County has no tax increment financing.

The results of our tests indicate that, for the items tested, Norman 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 96-1 and 06-4.

Also included in the Schedule of Findings and Questioned Costs is a management practices comment and an other item for consideration. We believe this recommendation and information to be of benefit to the County, and they are reported for that purpose.

Norman County's written responses to the internal control, legal compliance, and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. 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 Norman 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

June 14, 2011

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Norman County

Compliance

We have audited Norman County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. Norman 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 Norman 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 of the County's compliance with those requirements.

In our opinion, Norman County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

Management of Norman 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 to determine the 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 of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 10-3. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Norman County's corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plan and, accordingly, we express no opinion on it.

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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 14, 2011