

# **STATE OF MINNESOTA**

## **Office of the State Auditor**



**Rebecca Otto**  
**State Auditor**

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**CARLTON COUNTY**  
**CARLTON, MINNESOTA**

**FOR THE YEAR ENDED DECEMBER 31, 2008**

## **Description of the Office of the State Auditor**

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

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

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

**Pension** - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

**Tax Increment Financing** - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

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

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**For the Year Ended December 31, 2008**



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

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

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CARLTON, MINNESOTA**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**ORGANIZATION  
AS OF DECEMBER 31, 2008**

|                          |                       |            | <u>Term Expires</u> |
|--------------------------|-----------------------|------------|---------------------|
| Elected                  |                       |            |                     |
| Commissioners            |                       |            |                     |
| Board Member             | Dick Brenner          | District 1 | January 2009        |
| Board Member             | Marv Bodie            | District 2 | January 2011        |
| Board Member             | Melvin Tan            | District 3 | January 2009        |
| Board Member             | Gordon Aanerud        | District 4 | January 2011        |
| Chair                    | Ted Pihlman           | District 5 | January 2009        |
| Attorney                 | Thomas H. Pertler     |            | January 2011        |
| Auditor/Treasurer        | Paul Gassert          |            | January 2011        |
| Coroner                  | Richard Puumala, M.D. |            | January 2011        |
| Sheriff                  | Kelly Lake            |            | January 2011        |
| Appointed                |                       |            |                     |
| Assessor                 | Marci Moreland        |            | January 2013        |
| Recorder                 | Kristine Basilici     |            | January 2011        |
| Registrar of Titles      | Kristine Basilici     |            | January 2011        |
| Highway Engineer         | Wayne Olson           |            | May 2009            |
| Veteran Services Officer | Duane Brownie         |            | January 2010        |
| Surveyor                 | William Hayden        |            | December 2009       |

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Carlton County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carlton County, Minnesota, as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Carlton County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

In our opinion, because of the effects of the matters discussed in the two preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of Carlton County as of December 31, 2008, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Carlton County as of December 31, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2010, on our consideration of Carlton County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the

scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

January 14, 2010

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2008  
(Unaudited)**

Carlton County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2008. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

**FINANCIAL HIGHLIGHTS**

- Governmental activities' total net assets are \$16,506,260, of which \$5,346,382 is restricted to specific purposes.
- Carlton County's governmental activities' net assets increased by \$313,112 for the year ended December 31, 2008.
- The net cost of governmental activities was \$20,987,502 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$21,300,614.
- Governmental funds' fund balances decreased by \$1,316,747.
- Carlton County has not established capital asset records or recorded the related depreciation as required by Governmental Accounting Standards Board Statement 34. Carlton County also has not determined the net other postemployment benefits liability as required by Governmental Accounting Standards Board Statement 45.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

### **Government-Wide Financial Statements--The Statement of Net Assets and the Statement of Activities**

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

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

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

### **Fund Financial Statements**

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

All of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation in a statement following each governmental fund financial statement.

### Reporting the County's Fiduciary Responsibilities

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

### THE COUNTY AS A WHOLE

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

**Table 1**  
**Net Assets**  
**(in thousands)**

|                            | 2008      | 2007      |
|----------------------------|-----------|-----------|
| Assets                     | \$ 28,968 | \$ 29,176 |
| Long-term debt outstanding | \$ 9,328  | \$ 9,924  |
| Other liabilities          | 3,134     | 3,059     |
| Total Liabilities          | \$ 12,462 | \$ 12,983 |
| Net Assets                 |           |           |
| Restricted                 | \$ 5,346  | \$ 6,750  |
| Unrestricted               | 11,160    | 9,443     |
| Total Net Assets           | \$ 16,506 | \$ 16,193 |

**Table 2**  
**Changes in Net Assets**  
**(in thousands)**

|                                    | <u>2008</u>      | <u>2007</u>      |
|------------------------------------|------------------|------------------|
| Revenues                           |                  |                  |
| Program revenues                   |                  |                  |
| Fees, fines, charges, and other    | \$ 5,834         | \$ 5,915         |
| Operating grants and contributions | 10,770           | 10,688           |
| Capital grants and contributions   | 2,590            | 5,045            |
| General revenues                   |                  |                  |
| Property taxes                     | 16,404           | 15,162           |
| Other taxes                        | 242              | 262              |
| Grants and contributions           | 3,684            | 4,022            |
| Other general revenues             | <u>970</u>       | <u>1,544</u>     |
| Total Revenues                     | <u>\$ 40,494</u> | <u>\$ 42,638</u> |
| Expenses                           |                  |                  |
| Program expenses                   |                  |                  |
| General government                 | \$ 6,390         | \$ 5,753         |
| Public safety                      | 6,458            | 5,982            |
| Culture and recreation             | 604              | 569              |
| Highways and streets               | 8,893            | 11,833           |
| Human services                     | 12,325           | 12,123           |
| Health                             | 2,415            | 2,282            |
| Sanitation                         | 1,126            | 1,131            |
| Conservation of natural resources  | 1,061            | 889              |
| Economic development               | 620              | 686              |
| Interest                           | <u>289</u>       | <u>318</u>       |
| Total Expenses                     | <u>\$ 40,181</u> | <u>\$ 41,566</u> |
| Increase (Decrease) in Net Assets  | \$ 313           | \$ 1,072         |
| Net Assets, January 1              | <u>16,193</u>    | <u>15,121</u>    |
| Net Assets, December 31            | <u>\$ 16,506</u> | <u>\$ 16,193</u> |

### **Governmental Activities**

The cost of all governmental activities this year was \$40,181,014. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$16,404,137, because some of the cost was paid by those who directly benefited from the programs (\$5,834,202) or by other governments and organizations that subsidized certain programs with grants and contributions (\$13,359,310).

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

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

|                      | Total Cost of Services |                  | Net Cost of Services |                  |
|----------------------|------------------------|------------------|----------------------|------------------|
|                      | 2008                   | 2007             | 2008                 | 2007             |
| General government   | \$ 6,390               | \$ 5,753         | \$ 4,739             | \$ 4,310         |
| Public safety        | 6,458                  | 5,982            | 5,879                | 5,291            |
| Highways and streets | 8,893                  | 11,833           | 3,982                | 4,450            |
| Human services       | 12,325                 | 12,123           | 4,871                | 4,498            |
| Health               | 2,415                  | 2,282            | 676                  | 674              |
| All others           | 3,700                  | 3,593            | 841                  | 695              |
| Totals               | <u>\$ 40,181</u>       | <u>\$ 41,566</u> | <u>\$ 20,988</u>     | <u>\$ 19,918</u> |

## THE COUNTY'S FUNDS

As the County completed the year, its governmental funds reported a combined fund balance of \$22,850,088, which is less than last year's total of \$24,166,835. Included in this year's total fund balance is a surplus of \$13,132,213 in the County's General Fund. The overall decrease in the governmental funds was due to a decrease for funds reserved for highways in the Road and Bridge Special Revenue Fund and in undesignated funds for the Human Services Special Revenue Fund and increases in undesignated funds in the County's General Fund and Road and Bridge Special Revenue Fund.

### General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) for the County's General Fund exceeded the final budget by \$52,941. The largest variances were in general government and culture and recreation.

On the other hand, resources available for appropriation exceeded the final budget for the County's General Fund by \$686,522. Collections were greater than expected in intergovernmental revenues and charges for services.

Fund balance was anticipated to increase by \$227,581. Actual fund balance increased by \$920,894 due to the net excess collections.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2008, the County had not completed an inventory and historical cost analysis of its capital assets, including infrastructure. It is anticipated that the analysis will be performed during the next several months, and a record-keeping system will be established.

### **Debt**

At year-end, the County had \$6,470,000 outstanding in general obligation bonds, backed by the County, versus \$7,165,000 last year.

The County did not issue bonds during 2008. Principal and interest payments on all bonds and notes will not exceed the amount allowed by Minn. Stat. § 373.40.

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

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND LEVY**

The County's elected and appointed officials considered many factors when setting the fiscal year 2009 budget and tax levy:

- increased heating and vehicle fuel costs of \$226,624,
- increased Social Service State Residential Treatment costs of \$120,000,
- increased Social Service Out-of-Home Placement costs of \$388,595,
- eliminated 3.1 FTE positions from Public Health and Human Services, and
- property tax levies have increased 5.45 percent for 2009.

## **CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

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



## **BASIC FINANCIAL STATEMENTS**

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## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

***EXHIBIT 1***

**STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2008**

**Assets**

|                             |                      |
|-----------------------------|----------------------|
| Cash and pooled investments | \$ 20,188,200        |
| Receivables - net           | 7,006,015            |
| Inventories                 | 879,456              |
| Prepaid items               | 818,717              |
| Deferred charges            | 75,357               |
|                             | <hr/>                |
| <b>Total Assets</b>         | <b>\$ 28,967,745</b> |

**Liabilities**

|  |                      |
|--|----------------------|
| Accounts payable and other current liabilities | \$ 2,658,672         |
| Accrued interest payable                       | 65,873               |
| Unearned revenue                               | 409,316              |
| Long-term liabilities                          |                      |
| Due within one year                            | 561,313              |
| Due in more than one year                      | 8,766,311            |
|  | <hr/>                |
| <b>Total Liabilities</b>                       | <b>\$ 12,461,485</b> |

**Net Assets**

|                                   |                      |
|-----------------------------------|----------------------|
| Restricted for                    |                      |
| General government                | \$ 391,859           |
| Public safety                     | 47,079               |
| Highways and streets              | 2,111,764            |
| Sanitation                        | 30,116               |
| Conservation of natural resources | 262,633              |
| Economic development              | 2,502,931            |
| Unrestricted                      | 11,159,878           |
|                                   | <hr/>                |
| <b>Total Net Assets</b>           | <b>\$ 16,506,260</b> |

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

|  |                      |                     | Program Revenues                   |  | Net (Expense)<br>Revenue and<br>Changes in Net<br>Assets |
|--|----------------------|---------------------|------------------------------------|--|--|
|  |                      |                     | Fees, Charges,<br>Fines, and Other | Operating<br>Grants and<br>Contributions |  |
|  | Expenses             |                     |                                    | Capital<br>Grants and<br>Contributions   | Governmental<br>Activities                               |
| <b><u>Functions/Programs</u></b>                             |                      |                     |                                    |  |  |
| <b>Governmental activities</b>                               |                      |                     |                                    |  |  |
| General government   | \$ 6,390,116         | \$ 912,429          | \$ 738,788                         | \$ -                                     | \$ (4,738,899)   |
| Public safety  | 6,457,593            | 252,565             | 324,602                            | 1,694                                    | (5,878,732)  |
| Highways and streets   | 8,893,090            | 915,197             | 1,469,300                          | 2,526,496                                | (3,982,097)  |
| Sanitation   | 1,125,746            | 766,374             | 558,536                            | -  | 199,164  |
| Human services   | 12,324,687           | 792,076             | 6,661,429                          | -  | (4,871,182)  |
| Health   | 2,415,409            | 1,178,568           | 560,688                            | -  | (676,153)  |
| Culture and recreation                                       | 603,714              | 11,554              | 288,257                            | -  | (303,903)  |
| Conservation of natural<br>resources                         | 1,061,413            | 800,767             | 65,587                             | -  | (195,059)  |
| Economic development   | 619,632              | 204,672             | 102,490                            | 61,443                                   | (251,027)  |
| Interest   | 289,614              | -                   | -                                  | -  | (289,614)  |
| <b>Total Governmental<br/>Activities</b>                     | <b>\$ 40,181,014</b> | <b>\$ 5,834,202</b> | <b>\$ 10,769,677</b>               | <b>\$ 2,589,633</b>                      | <b>\$ (20,987,502)</b>                                   |
| <b>General Revenues</b>                                      |                      |                     |                                    |  |  |
| Property taxes   |                      |                     |                                    |  | \$ 16,404,137  |
| Mortgage registry and deed tax                               |                      |                     |                                    |  | 23,011   |
| Payments in lieu of tax                                      |                      |                     |                                    |  | 219,037  |
| Grants and contributions not restricted to specific programs |                      |                     |                                    |  | 3,683,776  |
| Unrestricted investment earnings                             |                      |                     |                                    |  | 711,387  |
| Miscellaneous  |                      |                     |                                    |  | 259,266  |
| <b>Total general revenues</b>                                |                      |                     |                                    |  | <b>\$ 21,300,614</b>                                     |
| <b>Change in net assets</b>                                  |                      |                     |                                    |  | <b>\$ 313,112</b>  |
| <b>Net Assets - Beginning</b>                                |                      |                     |                                    |  | <b>16,193,148</b>  |
| <b>Net Assets - Ending</b>                                   |                      |                     |                                    |  | <b>\$ 16,506,260</b>                                     |

## **FUND FINANCIAL STATEMENTS**

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## **GOVERNMENTAL FUNDS**

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2008**

|                                | <u>General</u>              | <u>Road and Bridge</u>     |
|--------------------------------|-----------------------------|----------------------------|
| <u>Assets</u>                  |                             |                            |
| Cash and pooled investments    | \$ 10,599,770               | \$ 3,159,680               |
| Petty cash and change funds    | 1,600                       | -                          |
| Taxes receivable               |                             |                            |
| Delinquent                     | 411,376                     | 117,617                    |
| Special assessments receivable |                             |                            |
| Delinquent                     | 38,424                      | -                          |
| Accounts receivable            | 68,614                      | 1,682                      |
| Accrued interest receivable    | 283,600                     | -                          |
| Due from other funds           | 173,221                     | 78,566                     |
| Due from other governments     | 327,114                     | 1,970,674                  |
| Inventories                    | -                           | 879,456                    |
| Prepaid items                  | 818,717                     | -                          |
| Loans receivable               | 1,622,289                   | -                          |
| Deposits receivable            | 100,000                     | -                          |
| <b>Total Assets</b>            | <b><u>\$ 14,444,725</u></b> | <b><u>\$ 6,207,675</u></b> |

**EXHIBIT 3**

| <b>Human Services</b> | <b>Forfeited Tax</b> | <b>Debt Service<br/>Nonmajor Fund</b> | <b>Total<br/>Governmental Funds</b> |
|-----------------------|----------------------|---------------------------------------|-------------------------------------|
| \$ 5,295,985          | \$ 238,864           | \$ 888,351                            | \$ 20,182,650                       |
| 3,950                 | -                    | -                                     | 5,550                               |
| 189,476               | -                    | 36,117                                | 754,586                             |
| -                     | -                    | -                                     | 38,424                              |
| 149,628               | 479,916              | -                                     | 699,840                             |
| -                     | -                    | -                                     | 283,600                             |
| -                     | -                    | -                                     | 251,787                             |
| 1,209,488             | -                    | -                                     | 3,507,276                           |
| -                     | -                    | -                                     | 879,456                             |
| -                     | -                    | -                                     | 818,717                             |
| -                     | -                    | -                                     | 1,622,289                           |
| -                     | -                    | -                                     | 100,000                             |
| <b>\$ 6,848,527</b>   | <b>\$ 718,780</b>    | <b>\$ 924,468</b>                     | <b>\$ 29,144,175</b>                |

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2008**

|   | <u>General</u>       | <u>Road and Bridge</u> |
|---|----------------------|------------------------|
| <b><u>Liabilities and Fund Balances</u></b> |                      |                        |
| <b>Liabilities</b>                          |                      |                        |
| Accounts payable                            | \$ 136,373           | \$ 47,034              |
| Salaries payable                            | 519,440              | 196,088                |
| Contracts payable                           | 7,013                | 266,046                |
| Due to other funds                          | 30,758               | -                      |
| Due to other governments                    | 69,685               | -                      |
| Deferred revenue - unavailable              | 507,803              | 1,759,795              |
| Deferred revenue - unearned                 | 41,440               | 278,250                |
|   | <hr/>                | <hr/>                  |
| <b>Total Liabilities</b>                    | <b>\$ 1,312,512</b>  | <b>\$ 2,547,213</b>    |
|   | <hr/>                | <hr/>                  |
| <b>Fund Balances</b>                        |                      |                        |
| Reserved for                                |                      |                        |
| Inventories                                 | \$ -                 | \$ 879,456             |
| Economic development                        | 810,758              | -                      |
| Election equipment                          | 34,606               | -                      |
| Loans receivable                            | 1,622,289            | -                      |
| Prepaid items                               | 818,717              | -                      |
| Missing heirs                               | 31,012               | -                      |
| Law library                                 | 34,887               | -                      |
| Recorder's equipment                        | 237,528              | -                      |
| Sheriff's contingency                       | 3,453                | -                      |
| Sheriff's gun permit fee                    | 30,470               | -                      |
| Sheriff's forfeited property                | 13,156               | -                      |
| Attorney's forfeited property               | 53,826               | -                      |
| Highways                                    | -                    | 968,303                |
| Timber development                          | 262,633              | -                      |
| Deposits receivable                         | 100,000              | -                      |
| Town roads                                  | -                    | 108,790                |
| Unreserved                                  |                      |                        |
| Designated for petty cash funds             | 1,600                | -                      |
| Undesignated                                | 9,077,278            | 1,703,913              |
| Unreserved, reported in nonmajor            |                      |                        |
| Debt service fund                           | -                    | -                      |
|   | <hr/>                | <hr/>                  |
| <b>Total Fund Balances</b>                  | <b>\$ 13,132,213</b> | <b>\$ 3,660,462</b>    |
|   | <hr/>                | <hr/>                  |
| <b>Total Liabilities and Fund Balances</b>  | <b>\$ 14,444,725</b> | <b>\$ 6,207,675</b>    |
|   | <hr/> <hr/>          | <hr/> <hr/>            |

**EXHIBIT 3**  
**(Continued)**

| <u>Human Services</u> | <u>Forfeited Tax</u> | <u>Debt Service<br/>Nonmajor Fund</u> | <u>Total<br/>Governmental Funds</u> |
|-----------------------|----------------------|---------------------------------------|-------------------------------------|
| \$ 496,173            | \$ 2,066             | \$ -                                  | \$ 681,646                          |
| 511,044               | 9,683                | -                                     | 1,236,255                           |
| -                     | -                    | -                                     | 273,059                             |
| 72                    | 220,957              | -                                     | 251,787                             |
| 346,842               | 51,185               | -                                     | 467,712                             |
| 288,144               | 386,198              | 32,372                                | 2,974,312                           |
| 89,626                | -                    | -                                     | 409,316                             |
| <u>\$ 1,731,901</u>   | <u>\$ 670,089</u>    | <u>\$ 32,372</u>                      | <u>\$ 6,294,087</u>                 |
| \$ -                  | \$ -                 | \$ -                                  | 879,456                             |
| -                     | -                    | -                                     | 810,758                             |
| -                     | -                    | -                                     | 34,606                              |
| -                     | -                    | -                                     | 1,622,289                           |
| -                     | -                    | -                                     | 818,717                             |
| -                     | -                    | -                                     | 31,012                              |
| -                     | -                    | -                                     | 34,887                              |
| -                     | -                    | -                                     | 237,528                             |
| -                     | -                    | -                                     | 3,453                               |
| -                     | -                    | -                                     | 30,470                              |
| -                     | -                    | -                                     | 13,156                              |
| -                     | -                    | -                                     | 53,826                              |
| -                     | -                    | -                                     | 968,303                             |
| -                     | -                    | -                                     | 262,633                             |
| -                     | -                    | -                                     | 100,000                             |
| -                     | -                    | -                                     | 108,790                             |
| -                     | -                    | -                                     | 1,600                               |
| 5,116,626             | 48,691               | -                                     | 15,946,508                          |
| -                     | -                    | 892,096                               | 892,096                             |
| <u>\$ 5,116,626</u>   | <u>\$ 48,691</u>     | <u>\$ 892,096</u>                     | <u>\$ 22,850,088</u>                |
| <u>\$ 6,848,527</u>   | <u>\$ 718,780</u>    | <u>\$ 924,468</u>                     | <u>\$ 29,144,175</u>                |

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

***EXHIBIT 4***

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2008**

|   |           |                   |
|---|-----------|-------------------|
| <b>Fund balances - total governmental funds (Exhibit 3)</b> | <b>\$</b> | <b>22,850,088</b> |
|---|-----------|-------------------|

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

|   |  |           |
|---|--|-----------|
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. |  | 2,974,312 |
|---|--|-----------|

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

|                                |    |             |             |
|--------------------------------|----|-------------|-------------|
| General obligation bonds       | \$ | (6,449,525) |             |
| Contract for deed              |    | (225,000)   |             |
| Loans payable                  |    | (144,295)   |             |
| Accrued interest payable       |    | (65,873)    |             |
| Compensated absences           |    | (2,508,804) |             |
| Deferred debt issuance charges |    | 75,357      |             |
|                                |    | <hr/>       | <hr/>       |
|                                |    |             | (9,318,140) |

|  |           |                          |
|--|-----------|--------------------------|
| <b>Net Assets of Governmental Activities (Exhibit 1)</b> | <b>\$</b> | <b><u>16,506,260</u></b> |
|--|-----------|--------------------------|

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

|  | <u>General</u>       | <u>Road and Bridge</u> |
|--|----------------------|------------------------|
| <b>Revenues</b>  |                      |                        |
| Taxes  | \$ 9,026,050         | \$ 2,507,184           |
| Special assessments                                    | 453,145              | -                      |
| Licenses and permits                                   | 97,207               | -                      |
| Intergovernmental                                      | 3,801,707            | 3,843,985              |
| Charges for services                                   | 2,028,509            | 391,152                |
| Fines and forfeits                                     | 45,440               | -                      |
| Gifts and contributions                                | 32,303               | -                      |
| Investment income                                      | 650,487              | 60,900                 |
| Miscellaneous  | 444,549              | 600,771                |
| <b>Total Revenues</b>                                  | <b>\$ 16,579,397</b> | <b>\$ 7,403,992</b>    |
| <b>Expenditures</b>                                    |                      |                        |
| <b>Current</b>   |                      |                        |
| General government                                     | \$ 6,272,563         | \$ -                   |
| Public safety  | 6,412,434            | -                      |
| Highways and streets                                   | -                    | 9,010,448              |
| Sanitation   | 1,125,746            | -                      |
| Human services   | -                    | -                      |
| Health   | -                    | -                      |
| Culture and recreation                                 | 603,714              | -                      |
| Conservation of natural resources                      | 591,583              | -                      |
| Economic development                                   | 619,632              | -                      |
| <b>Capital outlay</b>                                  | -                    | -                      |
| <b>Debt service</b>                                    |                      |                        |
| Principal  | 131,313              | -                      |
| Interest   | 16,250               | -                      |
| Administrative charge                                  | -                    | -                      |
| <b>Total Expenditures</b>                              | <b>\$ 15,773,235</b> | <b>\$ 9,010,448</b>    |
| <b>Excess of Revenues Over (Under) Expenditures</b>    | <b>\$ 806,162</b>    | <b>\$ (1,606,456)</b>  |
| <b>Other Financing Sources (Uses)</b>                  |                      |                        |
| Transfers in   | \$ 131,290           | \$ -                   |
| Transfers out  | (16,558)             | -                      |
| <b>Total Other Financing Sources (Uses)</b>            | <b>\$ 114,732</b>    | <b>\$ -</b>            |
| <b>Net Change in Fund Balance</b>                      | <b>\$ 920,894</b>    | <b>\$ (1,606,456)</b>  |
| <b>Fund Balance - January 1</b>                        | <b>12,211,319</b>    | <b>5,121,175</b>       |
| <b>Increase (decrease) in reserved for inventories</b> | <b>-</b>             | <b>145,743</b>         |
| <b>Fund Balance - December 31</b>                      | <b>\$ 13,132,213</b> | <b>\$ 3,660,462</b>    |

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

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**EXHIBIT 5**

| <u>Human Services</u> | <u>Forfeited Tax</u> | <u>Debt Service<br/>Nonmajor Fund</u> | <u>Total<br/>Governmental Funds</u> |
|-----------------------|----------------------|---------------------------------------|-------------------------------------|
| \$ 4,063,881          | \$ 20,351            | \$ 646,393                            | \$ 16,263,859                       |
| -                     | -                    | -                                     | 453,145                             |
| -                     | -                    | -                                     | 97,207                              |
| 8,258,088             | 555                  | 73,378                                | 15,977,713                          |
| 192,491               | -                    | -                                     | 2,612,152                           |
| -                     | -                    | -                                     | 45,440                              |
| 1,670                 | -                    | -                                     | 33,973                              |
| -                     | -                    | -                                     | 711,387                             |
| 1,778,153             | 486,493              | -                                     | 3,309,966                           |
| <u>\$ 14,294,283</u>  | <u>\$ 507,399</u>    | <u>\$ 719,771</u>                     | <u>\$ 39,504,842</u>                |
| <br>                  |                      |                                       |                                     |
| \$ -                  | \$ 51,068            | \$ -                                  | \$ 6,323,631                        |
| -                     | -                    | -                                     | 6,412,434                           |
| -                     | -                    | -                                     | 9,010,448                           |
| -                     | -                    | -                                     | 1,125,746                           |
| 12,112,571            | -                    | -                                     | 12,112,571                          |
| 2,415,409             | -                    | -                                     | 2,415,409                           |
| -                     | -                    | -                                     | 603,714                             |
| -                     | 472,105              | -                                     | 1,063,688                           |
| -                     | -                    | -                                     | 619,632                             |
| 121,590               | -                    | -                                     | 121,590                             |
| -                     | -                    | 695,000                               | 826,313                             |
| -                     | -                    | 313,993                               | 330,243                             |
| -                     | -                    | 1,913                                 | 1,913                               |
| <u>\$ 14,649,570</u>  | <u>\$ 523,173</u>    | <u>\$ 1,010,906</u>                   | <u>\$ 40,967,332</u>                |
| <u>\$ (355,287)</u>   | <u>\$ (15,774)</u>   | <u>\$ (291,135)</u>                   | <u>\$ (1,462,490)</u>               |
| <br>                  |                      |                                       |                                     |
| \$ 16,558             | \$ -                 | \$ -                                  | \$ 147,848                          |
| -                     | (131,290)            | -                                     | (147,848)                           |
| <u>\$ 16,558</u>      | <u>\$ (131,290)</u>  | <u>\$ -</u>                           | <u>\$ -</u>                         |
| <br>                  |                      |                                       |                                     |
| \$ (338,729)          | \$ (147,064)         | \$ (291,135)                          | \$ (1,462,490)                      |
| <br>                  |                      |                                       |                                     |
| 5,455,355             | 195,755              | 1,183,231                             | 24,166,835                          |
| -                     | -                    | -                                     | 145,743                             |
| <u>\$ 5,116,626</u>   | <u>\$ 48,691</u>     | <u>\$ 892,096</u>                     | <u>\$ 22,850,088</u>                |

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

|   |           |                    |
|---|-----------|--------------------|
| <b>Net change in fund balances - total governmental funds (Exhibit 5)</b> | <b>\$</b> | <b>(1,462,490)</b> |
|---|-----------|--------------------|

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

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

|                                |                    |         |
|--------------------------------|--------------------|---------|
| Deferred revenue - December 31 | \$ 2,974,312       |         |
| Deferred revenue - January 1   | <u>(1,985,028)</u> | 989,284 |

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

|                          |               |         |
|--------------------------|---------------|---------|
| Principal repayments     |               |         |
| General obligation bonds | \$ 695,000    |         |
| Contract for deed        | 100,000       |         |
| Loans payable            | <u>31,313</u> | 826,313 |

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

|   |                |                 |
|---|----------------|-----------------|
| Change in accrued interest payable        | \$ 49,886      |                 |
| Change in compensated absences            | (228,280)      |                 |
| Amortization of deferred issuance charges | (5,652)        |                 |
| Amortization of bond discounts            | (1,692)        |                 |
| Change in inventories                     | <u>145,743</u> | <u>(39,995)</u> |

|  |           |                       |
|--|-----------|-----------------------|
| <b>Change in Net Assets of Governmental Activities (Exhibit 2)</b> | <b>\$</b> | <b><u>313,112</u></b> |
|--|-----------|-----------------------|

## **FIDUCIARY FUNDS**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

***EXHIBIT 7***

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2008**

|                             | <u>Agency</u>              |
|-----------------------------|----------------------------|
| <b><u>Assets</u></b>        |                            |
| Cash and pooled investments | <u><u>\$ 1,278,370</u></u> |
| <b><u>Liabilities</u></b>   |                            |
| Accounts payable            | \$ 114,740                 |
| Salaries payable            | 7,417                      |
| Due to other governments    | <u>1,156,213</u>           |
| <b>Total Liabilities</b>    | <u><u>\$ 1,278,370</u></u> |

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008**

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**1. Summary of Significant Accounting Policies**

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2008. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

Carlton County has not included capital assets or infrastructure, such as roads and bridges, in the government-wide financial statements as required by GASB Statement 34. Also, the County has not determined what its other postemployment benefits (OPEB) liability might be in order to include the liability in the government-wide financial statements as required by GASB Statement 45. These departures from GAAP are discussed in Notes 1.D.4. and 1.D.7. to the financial statements.

**A. Financial Reporting Entity**

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

**Joint Ventures**

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

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

These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support. Carlton County has no business-type activities.

In the government-wide statement of net assets, the governmental activities are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations, except that Carlton County does not report capital assets and OPEB liability, as discussed in Notes 1.D.4. and 1.D.7.

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues. The County has not recorded depreciation expense or eliminated the related capital expenditures or recognized any change in net OPEB obligations in the statement of activities as required by generally accepted accounting principles, as discussed in Notes 1.D.4. and 1.D.7.



**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Human Services Special Revenue Fund is used to account for economic assistance and community social services programs.

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

The County reports the following nonmajor governmental fund:

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fiduciary fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

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, 2008, 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 2008 were \$711,387.

Carlton County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (the current portion of interfund loans) or "advances to/from other funds" (the noncurrent portion of interfund loans).

All other outstanding balances between funds are reported as "due to/from other funds."

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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

3. Inventories and Prepaid Items

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

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

4. Capital Assets

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

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

5. Compensated Absences

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

6. Deferred Revenue

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

7. Long-Term Obligations

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

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Long-Term Obligations (Continued)

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

8. Fund Equity

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

9. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget for the year ended December 31, 2008:

|                                      | <u>Budget</u> | <u>Expenditures</u> | <u>Excess</u> |
|--------------------------------------|---------------|---------------------|---------------|
| General Fund                         | \$ 15,720,294 | \$ 15,773,235       | \$ 52,941     |
| Road and Bridge Special Revenue Fund | 7,941,504     | 9,010,448           | 1,068,944     |
| Human Services Special Revenue Fund  | 14,437,936    | 14,649,570          | 211,634       |
| Forfeited Tax Special Revenue Fund   | 259,313       | 523,173             | 263,860       |
| Debt Service Fund                    | 719,386       | 1,010,906           | 291,520       |

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

|   |                      |
|---|----------------------|
| Government-wide statement of net assets |                      |
| Governmental activities                 |                      |
| Cash and pooled investments             | \$ 20,188,200        |
| Statement of fiduciary net assets       |                      |
| Cash and pooled investments             | <u>1,278,370</u>     |
| Total Cash and Investments              | <u>\$ 21,466,570</u> |

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County's policy is to maintain adequate collateral for all deposits. As of December 31, 2008, the County's deposits were not exposed to custodial credit risk.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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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.



**CARLTON COUNTY  
CARLTON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy on custodial credit risk for investments. Of the County's investments at December 31, 2008, \$6,182,772 was held by the counterparty, or by its trust department or agent, but not in the County's name.

Concentration of Credit Risk

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

This table represents the County's deposit and investment balances at December 31, 2008, and information relating to potential investment risks:

| Investment Type                                    | Credit Risk   |               | Concentration Risk          | Interest Rate Risk | Carrying (Fair) Value |
|--|---------------|---------------|-----------------------------|--------------------|-----------------------|
|  | Credit Rating | Rating Agency | Over 5 Percent of Portfolio | Maturity Date      |                       |
| U.S. government agency securities                  |               |               |                             |                    |                       |
| Federal National Mortgage Association              | AAA           | S&P           | <5%                         | 10/01/2025         | \$ 7,237              |
| Federal Home Loan Mortgage Corporation Note        | AAA           | Moody's/S&P   |                             | 10/28/2011         | \$ 125,290            |
| Federal Home Loan Mortgage Corporation Note        | AAA           | Moody's/S&P   |                             | 02/06/2014         | 300,978               |
| Federal Home Loan Mortgage Corporation Note        | AAA           | S&P           |                             | 02/01/2028         | 7,511                 |
| Total Federal Home Loan Mortgage Corporation Notes |               |               | <5%                         |                    | \$ 433,779            |
| Negotiable certificates of deposit                 |               |               |                             |                    |                       |
| Central Bank                                       | N/A           | N/A           | <5%                         | 01/02/2009         | \$ 95,016             |
| Washington Trust Bank                              | N/A           | N/A           | <5%                         | 01/02/2009         | 95,108                |
| First United Bank & Trust                          | N/A           | N/A           | <5%                         | 01/05/2009         | 95,029                |
| Northeast Bank                                     | N/A           | N/A           | <5%                         | 01/05/2009         | 95,021                |
| Apple Bank for Savings                             | N/A           | N/A           | <5%                         | 01/08/2009         | 95,031                |
| Comerica Bank                                      | N/A           | N/A           | <5%                         | 01/08/2009         | 95,032                |
| Goldman Sacks Bank USA                             | N/A           | N/A           | <5%                         | 01/08/2009         | 95,031                |
| North American Savings Bank                        | N/A           | N/A           | <5%                         | 01/08/2009         | 95,031                |
| Bank United  | N/A           | N/A           | <5%                         | 01/12/2009         | 95,071                |
| Provident Bank                                     | N/A           | N/A           | <5%                         | 01/16/2009         | 95,116                |
| First Bank Beverly Hills                           | N/A           | N/A           | <5%                         | 01/22/2009         | 95,160                |
| Pacific Commercial Bank                            | N/A           | N/A           | <5%                         | 01/23/2009         | 95,127                |
| Bank Carolinas                                     | N/A           | N/A           | <5%                         | 01/30/2009         | 95,162                |
| Fidelity Bank                                      | N/A           | N/A           | <5%                         | 01/30/2009         | 95,162                |
| New Dominion Bank                                  | N/A           | N/A           | <5%                         | 01/30/2009         | 95,162                |
| Signature Bank of Arkansas                         | N/A           | N/A           | <5%                         | 01/30/2009         | 95,160                |
| First Citrus Bank                                  | N/A           | N/A           | <5%                         | 02/02/2009         | 95,175                |
| 1st Palmetto Savings                               | N/A           | N/A           | <5%                         | 02/03/2009         | 240,278               |
| Greystone Bank                                     | N/A           | N/A           | <5%                         | 02/03/2009         | 240,300               |
| Community SO Bank                                  | N/A           | N/A           | <5%                         | 02/05/2009         | 240,326               |
| MBank  | N/A           | N/A           | <5%                         | 02/06/2009         | 240,314               |
| Bank North   | N/A           | N/A           | <5%                         | 02/20/2009         | 96,268                |
| Cenlar FSB   | N/A           | N/A           | <5%                         | 02/20/2009         | 96,264                |
| Sovereign Bank FSB                                 | N/A           | N/A           | <5%                         | 02/20/2009         | 96,261                |
| Crescent Bank & Trust                              | N/A           | N/A           | <5%                         | 02/25/2009         | 95,289                |
| Haven Trust Bank                                   | N/A           | N/A           | <5%                         | 02/27/2009         | 95,310                |
| Golf Savings Bank                                  | N/A           | N/A           | <5%                         | 03/02/2009         | 96,336                |
| Bancorp Bank                                       | N/A           | N/A           | <5%                         | 03/02/2009         | 240,607               |
| Charter Bank                                       | N/A           | N/A           | <5%                         | 03/05/2009         | 96,348                |
| Trustatlantic Bank                                 | N/A           | N/A           | <5%                         | 03/05/2009         | 240,631               |
| Amboy Bank   | N/A           | N/A           | <5%                         | 03/06/2009         | 96,000                |
| Enterprise Bank                                    | N/A           | N/A           | <5%                         | 03/06/2009         | 96,000                |

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**3. Detailed Notes on All Funds**

**A. Assets**

**1. Deposits and Investments (Continued)**

| Investment Type                     | Credit Risk      |                  | Concentration<br>Risk          | Interest<br>Rate Risk | Carrying<br>(Fair)<br>Value |
|-------------------------------------|------------------|------------------|--------------------------------|-----------------------|-----------------------------|
|                                     | Credit<br>Rating | Rating<br>Agency | Over 5 Percent<br>of Portfolio | Maturity<br>Date      |                             |
| Equity Bank                         | N/A              | N/A              | <5%                            | 03/09/2009            | 245,284                     |
| SCB Bank                            | N/A              | N/A              | <5%                            | 03/12/2009            | 245,703                     |
| Commercial Bank                     | N/A              | N/A              | <5%                            | 03/16/2009            | 245,715                     |
| Wright Express Financial            | N/A              | N/A              | <5%                            | 03/18/2009            | 96,416                      |
| New South Federal Savings Bank      | N/A              | N/A              | <5%                            | 03/19/2009            | 96,410                      |
| GMAC Bank                           | N/A              | N/A              | <5%                            | 03/20/2009            | 96,444                      |
| Atlantic Southern Bank              | N/A              | N/A              | <5%                            | 03/30/2009            | 96,407                      |
| East West Bank                      | N/A              | N/A              | <5%                            | 03/30/2009            | 240,804                     |
| Capmark Bank                        | N/A              | N/A              | <5%                            | 04/02/2009            | 96,447                      |
| Fidelity Bank                       | N/A              | N/A              | <5%                            | 04/09/2009            | 96,434                      |
| Huntington National Bank            | N/A              | N/A              | <5%                            | 04/09/2009            | 96,443                      |
| Sturdy Savings Bank                 | N/A              | N/A              | <5%                            | 04/09/2009            | 96,434                      |
| National City Bank                  | N/A              | N/A              | <5%                            | 04/16/2009            | 96,468                      |
| Sallie Mae Bank                     | N/A              | N/A              | <5%                            | 04/16/2009            | 96,000                      |
| United Commercial Bank              | N/A              | N/A              | <5%                            | 04/16/2009            | 96,450                      |
| Alpine Bank Colorado                | N/A              | N/A              | <5%                            | 04/17/2009            | 95,476                      |
| Franklin Temple Bank & Trust        | N/A              | N/A              | <5%                            | 04/17/2009            | 95,471                      |
| Community Bank                      | N/A              | N/A              | <5%                            | 04/23/2009            | 96,465                      |
| Capital One Bank USA                | N/A              | N/A              | <5%                            | 04/23/2009            | 95,469                      |
| Capital One Bank NA                 | N/A              | N/A              | <5%                            | 04/23/2009            | 95,469                      |
| Columbus Bank & Trust               | N/A              | N/A              | <5%                            | 04/23/2009            | 95,460                      |
| Flagship Bank                       | N/A              | N/A              | <5%                            | 04/23/2009            | 95,460                      |
| Reliance Bank                       | N/A              | N/A              | <5%                            | 04/23/2009            | 95,460                      |
| Reliance Bank                       | N/A              | N/A              | <5%                            | 04/23/2009            | 95,460                      |
| Byron Bank                          | N/A              | N/A              | <5%                            | 04/24/2009            | 95,472                      |
| First Banking Center                | N/A              | N/A              | <5%                            | 04/28/2009            | 96,473                      |
| Bank Oklahoma NA                    | N/A              | N/A              | <5%                            | 04/30/2009            | 96,000                      |
| First National Bank Omaha           | N/A              | N/A              | <5%                            | 04/30/2009            | 95,483                      |
| Banner Bank                         | N/A              | N/A              | <5%                            | 05/07/2009            | 96,499                      |
| Cole Taylor Bank                    | N/A              | N/A              | <5%                            | 05/07/2009            | 96,499                      |
| Shorebank                           | N/A              | N/A              | <5%                            | 05/07/2009            | 96,499                      |
| Infibank NA                         | N/A              | N/A              | <5%                            | 05/14/2009            | 96,522                      |
| FirstMerit Bank                     | N/A              | N/A              | <5%                            | 05/22/2009            | 96,000                      |
| Carolina First Bank                 | N/A              | N/A              | <5%                            | 05/28/2009            | 96,494                      |
| Hanmi Bank                          | N/A              | N/A              | <5%                            | 06/04/2009            | 96,513                      |
| Bank Baroda                         | N/A              | N/A              | <5%                            | 06/18/2009            | 96,531                      |
| Preferred Bank                      | N/A              | N/A              | <5%                            | 06/18/2009            | 96,531                      |
| Wachovia MTG FSB                    | N/A              | N/A              | <5%                            | 06/18/2009            | 96,548                      |
| Marlin Business Bank                | N/A              | N/A              | <5%                            | 06/23/2009            | 96,540                      |
| Beacon Federal                      | N/A              | N/A              | <5%                            | 06/24/2009            | 96,000                      |
| State Bank Long Island              | N/A              | N/A              | <5%                            | 06/30/2009            | 96,000                      |
| Frontier Bank                       | N/A              | N/A              | <5%                            | 07/02/2009            | 97,693                      |
| Riverside National Bank             | N/A              | N/A              | <5%                            | 07/09/2009            | 96,608                      |
| Reliant Bank                        | N/A              | N/A              | <5%                            | 07/14/2009            | 241,322                     |
| Lehman Commercial Bank              | N/A              | N/A              | <5%                            | 07/23/2009            | 96,788                      |
| Discover Bank                       | N/A              | N/A              | <5%                            | 07/29/2009            | 241,430                     |
| Eastside Commercial Bank            | N/A              | N/A              | <5%                            | 07/30/2009            | 241,632                     |
| First Southern National States Bank | N/A              | N/A              | <5%                            | 07/30/2009            | 241,577                     |

# CARLTON COUNTY CARLTON, MINNESOTA

## 3. Detailed Notes on All Funds

### A. Assets

#### 1. Deposits and Investments (Continued)

| Investment Type                          | Credit Risk   |               | Concentration Risk          | Interest Rate Risk | Carrying (Fair) Value |
|--|---------------|---------------|-----------------------------|--------------------|-----------------------|
|  | Credit Rating | Rating Agency | Over 5 Percent of Portfolio | Maturity Date      |                       |
| First Southern National States Bank      | N/A           | N/A           | <5%                         | 07/30/2009         | 241,577               |
| Temecula VY Bank                         | N/A           | N/A           | <5%                         | 07/31/2009         | 241,714               |
| BankGreenville                           | N/A           | N/A           | <5%                         | 08/05/2009         | 241,769               |
| Providence Bank                          | N/A           | N/A           | <5%                         | 08/05/2009         | 241,769               |
| Anchor Bank FSB                          | N/A           | N/A           | <5%                         | 08/06/2009         | 96,768                |
| First Regional Bank                      | N/A           | N/A           | <5%                         | 08/31/2009         | 96,669                |
| Wachovia Bank NA                         | N/A           | N/A           | <5%                         | 09/08/2009         | 96,819                |
| State Bank of India                      | N/A           | N/A           | <5%                         | 09/11/2009         | 96,000                |
| American Express Bank                    | N/A           | N/A           | <5%                         | 11/25/2009         | 96,000                |
| Center Bank                              | N/A           | N/A           | <5%                         | 12/10/2009         | 96,295                |
| GE Money Bank                            | N/A           | N/A           | <5%                         | 12/11/2009         | 96,000                |
| Superior Bank                            | N/A           | N/A           | <5%                         | 12/17/2009         | 98,317                |
| Nexity Bank                              | N/A           | N/A           | <5%                         | 02/08/2010         | 96,949                |
| Advanta Bank Corp.                       | N/A           | N/A           | <5%                         | 02/22/2010         | 96,656                |
| Hanmi Bank                               | N/A           | N/A           | <5%                         | 03/10/2010         | 96,448                |
| CIT Bank                                 | N/A           | N/A           | <5%                         | 04/29/2009         | 96,869                |
| Hinsdale Bank & Trust                    | N/A           | N/A           | <5%                         | 05/07/2010         | 96,858                |
| Homestreet Bank                          | N/A           | N/A           | <5%                         | 05/27/2010         | 96,822                |
| M&I Bank                                 | N/A           | N/A           | <5%                         | 07/16/2010         | 96,686                |
| Southwest Bank                           | N/A           | N/A           | <5%                         | 07/16/2010         | 96,686                |
| People's Bank & Trust Company            | N/A           | N/A           | <5%                         | 08/13/2010         | 96,903                |
| Great Southern Bank                      | N/A           | N/A           | <5%                         | 08/16/2010         | 96,687                |
| BMW Bank of North America                | N/A           | N/A           | <5%                         | 09/17/2010         | 96,590                |
| Morgan Stanley Bank                      | N/A           | N/A           | <5%                         | 10/08/2010         | 96,686                |
| American Express Bank                    | N/A           | N/A           | <5%                         | 11/12/2010         | 96,683                |
| Integra Bank National Association        | N/A           | N/A           | <5%                         | 11/15/2010         | 97,284                |
| Capital One Bank USA NA                  | N/A           | N/A           | <5%                         | 11/26/2010         | 96,679                |
| Capital One NA                           | N/A           | N/A           | <5%                         | 11/26/2010         | 96,680                |
| Sovereign Bank FSB                       | N/A           | N/A           | <5%                         | 11/26/2010         | 96,679                |
| Pacific Capital Bank                     | N/A           | N/A           | <5%                         | 03/01/2011         | 96,228                |
| Shinhan Bank America                     | N/A           | N/A           | <5%                         | 04/25/2011         | 97,984                |
| Total negotiable certificates of deposit |               |               |                             |                    | \$ 13,052,006         |
| Investment pools/mutual funds            |               |               |                             |                    |                       |
| MAGIC Fund                               | N/R           | N/A           | 23.4%                       | N/A                | \$ 4,127,554          |
| Total investments                        |               |               |                             |                    | \$ 17,620,576         |
| Deposits                                 |               |               |                             |                    | 3,840,444             |
| Petty cash                               |               |               |                             |                    | 5,550                 |
| Total Cash and Investments               |               |               |                             |                    | \$ 21,466,570         |

N/A - Not Applicable

N/R - Not Rated

S&P - Standard & Poor's

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2008, for the County's governmental activities are as follows:

|                               | Total<br>Receivables | Amounts Not<br>Scheduled for<br>Collection During<br>the Subsequent<br>Year |
|-------------------------------|----------------------|---|
| Governmental Activities       |                      |   |
| Taxes                         | \$ 754,586           | \$ -  |
| Special assessments           | 38,424               | -   |
| Due from other governments    | 3,507,276            | -   |
| Accounts                      | 699,840              | -   |
| Interest                      | 283,600              | -   |
| Loans receivable              | 1,622,289            | 1,474,153   |
| Deposits receivable           | 100,000              | 100,000   |
| Total Governmental Activities | <u>\$ 7,006,015</u>  | <u>\$ 1,574,153</u>   |

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2008, is as follows:

| Receivable Fund                   | Payable Fund   | Amount            | Purpose   |
|-----------------------------------|----------------|-------------------|---|
| General                           | Forfeited Tax  | <u>\$ 173,221</u> | Forfeited tax apportionment and payment of fees |
| Road and Bridge                   | General        | \$ 30,758         | Reimburse supplies and services                 |
|                                   | Human Services | 72                | Reimburse supplies and services                 |
|                                   | Forfeited Tax  | <u>47,736</u>     | Reimburse Soo Line Trail expenditures           |
| Total due to Road and Bridge Fund |                | <u>\$ 78,566</u>  |   |
| Total Due To/From Other Funds     |                | <u>\$ 251,787</u> |   |

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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3. Detailed Notes on All Funds

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2008, consisted of the following:

|  |                   |                         |
|--|-------------------|-------------------------|
| Transfers to General Fund from Forfeited Tax Fund  | \$ 131,290        | Distribute net proceeds |
| Transfers to Human Services Fund from General Fund | 16,558            | Repay IV-D              |
|  | <u>16,558</u>     |                         |
| Total Interfund Transfers                          | <u>\$ 147,848</u> |                         |

C. Liabilities

1. Payables

Payables at December 31, 2008, were as follows:

|                          |                                    |
|--------------------------|------------------------------------|
|                          | <u>Governmental<br/>Activities</u> |
| Accounts                 | \$ 681,646                         |
| Salaries                 | 1,236,255                          |
| Contracts                | 273,059                            |
| Due to other governments | <u>467,712</u>                     |
| Total Payables           | <u>\$ 2,658,672</u>                |

2. Other Postemployment Benefits - Retirees

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Other Postemployment Benefits - Retirees (Continued)

As of year-end, the County has 44 eligible participants. The County finances the plan on a pay-as-you-go basis. Premiums are charged to the departments from which the employee retired. During 2008, the County expended \$385,323 for these benefits.

3. Long-Term Debt

Bonds Payable

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

| Type of Indebtedness                   | Final<br>Maturity | Installment<br>Amounts   | Interest<br>Rate<br>(%) | Original<br>Issue<br>Amount | Outstanding<br>Balance<br>December 31,<br>2008 |
|--|-------------------|--------------------------|-------------------------|-----------------------------|--|
| General obligation bonds               |                   |                          |                         |                             |  |
| G.O. Capital Improvement<br>Bonds      | 2013              | \$195,000 -<br>\$205,000 | 3.70 -<br>4.60          | \$ 650,000                  | \$ 295,000                                     |
| 2002 G.O. Refunding Bonds              | 2011              | \$195,000 -<br>\$205,000 | 1.60 -<br>3.45          | 1,510,000                   | 405,000  |
| 2003 G.O. Capital<br>Improvement Bonds | 2023              | \$60,000 -<br>\$290,000  | 1.50 -<br>4.35          | 3,900,000                   | 3,355,000                                      |
| 2006 G.O. Capital<br>Improvement Bonds | 2021              | \$130,000 -<br>\$305,000 | 3.45 -<br>4.00          | 3,000,000                   | 2,415,000                                      |
| Total General Obligation<br>Bonds      |                   |                          |                         | <u>\$ 9,060,000</u>         | <u>\$ 6,470,000</u>                            |

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Loans Payable

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

| Type of Indebtedness              | Final<br>Maturity | Installment<br>Amounts | Interest<br>Rate<br>(%) | Original<br>Issue<br>Amount | Outstanding<br>Balance<br>December 31,<br>2008 |
|-----------------------------------|-------------------|------------------------|-------------------------|-----------------------------|--|
| 2003 tee hangar loan - Cloquet    | 2013              | \$1,834/month          | 0.00                    | \$ 220,082                  | \$ 100,872                                     |
| 2003 tee hangar loan - Moose Lake | 2013              | \$775/month            | 0.00                    | 93,050                      | 43,423   |
| Total Loans Payable               |                   |                        |                         | <u>\$ 313,132</u>           | <u>\$ 144,295</u>                              |

Contract for Deed

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

| Type of Indebtedness   | Final<br>Maturity | Installment<br>Amounts  | Interest<br>Rate<br>(%) | Original<br>Issue<br>Amount | Outstanding<br>Balance<br>December 31,<br>2008 |
|------------------------|-------------------|-------------------------|-------------------------|-----------------------------|--|
| 2005 Contract for Deed | 2011              | \$25,000 -<br>\$100,000 | 5.00                    | <u>\$ 525,000</u>           | <u>\$ 225,000</u>                              |



**CARLTON COUNTY  
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2008, were as follows:

Governmental Activities

| Year Ending<br>December 31 | General Obligation Bonds |                     | Loans             |             |
|----------------------------|--------------------------|---------------------|-------------------|-------------|
|                            | Principal                | Interest            | Principal         | Interest    |
| 2009                       | \$ 430,000               | \$ 248,858          | \$ 31,313         | \$ -        |
| 2010                       | 455,000                  | 233,789             | 31,313            | -           |
| 2011                       | 265,000                  | 216,861             | 31,313            | -           |
| 2012                       | 400,000                  | 204,034             | 31,313            | -           |
| 2013                       | 345,000                  | 188,174             | 19,043            | -           |
| 2014 - 2018                | 2,350,000                | 695,712             | -                 | -           |
| 2019 - 2023                | 2,225,000                | 202,765             | -                 | -           |
| Total                      | <u>\$ 6,470,000</u>      | <u>\$ 1,990,193</u> | <u>\$ 144,295</u> | <u>\$ -</u> |

| Year Ending<br>December 31 | Contract for Deed |                  |
|----------------------------|-------------------|------------------|
|                            | Principal         | Interest         |
| 2009                       | \$ 100,000        | \$ 11,250        |
| 2010                       | 100,000           | 6,250            |
| 2011                       | 25,000            | 1,250            |
| Total                      | <u>\$ 225,000</u> | <u>\$ 18,750</u> |

**CARLTON COUNTY  
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

|  | Beginning<br>Balance | Additions         | Reductions        | Ending<br>Balance<br>December 31,<br>2008 | Due Within<br>One Year |
|--|----------------------|-------------------|-------------------|---|------------------------|
| Bonds payable                                  |                      |                   |                   |   |                        |
| General obligation bonds                       | \$ 7,165,000         | \$ -              | \$ 695,000        | \$ 6,470,000                              | \$ 430,000             |
| Bond discount                                  | (22,167)             | -                 | (1,692)           | (20,475)                                  | -                      |
| Loans payable                                  | 175,608              | -                 | 31,313            | 144,295                                   | 31,313                 |
| Contract for deed                              | 325,000              | -                 | 100,000           | 225,000                                   | 100,000                |
| Compensated absences                           | 2,280,524            | 228,280           | -                 | 2,508,804                                 | -                      |
| Governmental Activity<br>Long-Term Liabilities | <u>\$ 9,923,965</u>  | <u>\$ 228,280</u> | <u>\$ 824,621</u> | <u>\$ 9,327,624</u>                       | <u>\$ 561,313</u>      |

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at [www.mnpera.org](http://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. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members were required to contribute 8.6 percent of their annual covered salary in 2008. That rate increased to 9.4 percent in 2009. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

|                                       | <u>2008</u> | <u>2009</u> |
|---------------------------------------|-------------|-------------|
| Public Employees Retirement Fund      |             |             |
| Basic Plan members                    | 11.78%      | 11.78%      |
| Coordinated Plan members              | 6.50        | 6.75        |
| Public Employees Police and Fire Fund | 12.90       | 14.10       |
| Public Employees Correctional Fund    | 8.75        | 8.75        |

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

|                                       | 2008       | 2007       | 2006       |
|---------------------------------------|------------|------------|------------|
| Public Employees Retirement Fund      | \$ 791,717 | \$ 738,918 | \$ 677,971 |
| Public Employees Police and Fire Fund | 175,464    | 150,658    | 133,127    |
| Public Employees Correctional Fund    | 61,596     | 58,654     | 56,587     |

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

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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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, 2008, were:

|                               | <u>Employee</u> | <u>Employer</u> |
|-------------------------------|-----------------|-----------------|
| Contribution amount           | \$ 1,253        | \$ 1,253        |
| Percentage of covered payroll | 5%              | 5%              |

Required contribution rates were 5.00 percent.

5. Postemployment Health Care

A. MSRS Health Care Savings Plan

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

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

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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5. Postemployment Health Care (Continued)

B. Northland VEBA Trust Plan

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

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

Eligibility requirements include:

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

6. Summary of Significant Contingencies and Other Items

A. Risk Management

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$410,000 per claim in 2008 and \$430,000 per claim in 2009. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

B. Contingent Liabilities

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

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



**CARLTON COUNTY  
CARLTON, MINNESOTA**

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

C. Conduit Debt

In 2005, the County entered into a joint powers agreement with the City of Cloquet to jointly issue \$9,930,000 in revenue bonds to provide financial assistance to Housing Alternatives Development Company (HADC), a nonprofit corporation, for the construction of a senior assisted living facility. The bonds are secured by the property financed and are payable solely from the revenues of HADC. Neither the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2008, the outstanding principal balance was \$9,630,000.

D. Joint Ventures

Arrowhead Regional Corrections

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

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

Arrowhead Regional Corrections is governed by an eight-member Board, composed of one member appointed from each of the participating counties' Boards of Commissioners, except for St. Louis County, which has three members from its Board. In addition, the right to have an additional member is annually rotated among Carlton, Cook, Koochiching, and Lake Counties.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Arrowhead Regional Corrections (Continued)

Arrowhead Regional Corrections is financed through state grants and contributions from the participating counties. During 2007 (the most recent information available), County contributions were in the following proportion:

|                    |                |
|--------------------|----------------|
| Carlton County     | 9.53%          |
| Cook County        | 1.52           |
| Koochiching County | 2.75           |
| Lake County        | 2.28           |
| St. Louis County   | <u>83.92</u>   |
| Total              | <u>100.00%</u> |

Below is a summary of the financial information from Arrowhead Regional Corrections' government-wide financial statements as of December 31, 2007 (the most recent audited figures available):

|                      |    |            |
|----------------------|----|------------|
| Total Assets         | \$ | 12,819,588 |
| Total Liabilities    |    | 5,417,642  |
| Total Net Assets     |    | 7,401,946  |
| Total Revenues       |    | 21,415,725 |
| Total Expenses       |    | 20,476,511 |
| Change in Net Assets |    | 939,214    |

Carlton County provided \$1,339,223 in funding during 2008. Separate financial information can be obtained from:

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Carlton County Children and Family Service Collaborative

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

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

Control of the Collaborative is vested in a Board of Directors. Carlton County has two members on the Board. Financing is provided by state and local grants, appropriations from Collaborative members, and miscellaneous revenues. Carlton County is the fiscal agent for the Collaborative and handles all of the financial transactions for this organization. Financial information for the Collaborative for the fiscal year ended December 31, 2008, is accounted for in an agency fund of Carlton County.

Community Health Board

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

The Community Health Board is composed of nine members. The Carlton, Cook, and Lake County Boards of Commissioners each appoint two members; the St. Louis County Board of Commissioners appoints three members. Financing is obtained through federal and state grants. Carlton County provided no funding to this organization in 2008.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Community Health Board (Continued)

At December 31, 2008, the Community Health Board's summary of financial information was:

|                      |            |
|----------------------|------------|
| Total Assets         | \$ 975,422 |
| Total Liabilities    | 850,067    |
| Total Net Assets     | 125,355    |
| Total Revenues       | 3,818,828  |
| Total Expenses       | 3,850,486  |
| Change in Net Assets | (31,658)   |

Separate financial information can be obtained from:

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

Northeast Minnesota Office of Job Training

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

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

A summary of the financial information of the Northeast Minnesota Office of Job Training's government-wide statements for June 30, 2008, was:

|                      |              |
|----------------------|--------------|
| Total Assets         | \$ 2,697,187 |
| Total Liabilities    | 1,317,583    |
| Total Net Assets     | 1,379,604    |
| Total Revenues       | 5,034,686    |
| Total Expenses       | 5,160,410    |
| Change in Net Assets | (125,724)    |

Separate financial information can be obtained from:

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

Minnesota Counties Information Systems

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

MCIS is governed by a 13-member Board. Each participating county appoints a member. Financing is obtained through user charges to the members. Cass County is the fiscal agent for MCIS.

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Minnesota Counties Information Systems (Continued)

A summary of the financial information of MCIS at December 31, 2006 (the most recent information available), was:

|                      |            |
|----------------------|------------|
| Total Assets         | \$ 785,330 |
| Total Liabilities    | 202,814    |
| Total Net Assets     | 582,516    |
| Total Revenues       | 2,387,269  |
| Total Expenses       | 2,195,143  |
| Change in Net Assets | 192,126    |

Separate financial information can be obtained from:

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

Minnesota Community Capital Fund

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

Arrowhead Health Alliance

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Arrowhead Health Alliance (Continued)

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

Carlton County contributed \$252,397 in start-up funds to the Arrowhead Health Alliance in 2007. Carlton County provided no funding to this organization in 2008.

E. Tax-Forfeited Land

The County manages approximately 72,300 acres of state-owned, tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Schedule 1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

|                                 | <b>Budgeted Amounts</b> |                      | <b>Actual</b>        | <b>Variance with</b> |
|---------------------------------|-------------------------|----------------------|----------------------|----------------------|
|                                 | <b>Original</b>         | <b>Final</b>         | <b>Amounts</b>       | <b>Final Budget</b>  |
| <b>Revenues</b>                 |                         |                      |                      |                      |
| Taxes                           | \$ 9,024,792            | \$ 9,024,792         | \$ 9,026,050         | \$ 1,258             |
| Special assessments             | 445,000                 | 445,000              | 453,145              | 8,145                |
| Licenses and permits            | 103,475                 | 103,475              | 97,207               | (6,268)              |
| Intergovernmental               | 3,506,482               | 3,506,482            | 3,801,707            | 295,225              |
| Charges for services            | 1,863,700               | 1,863,700            | 2,028,509            | 164,809              |
| Fines and forfeits              | 30,500                  | 30,500               | 45,440               | 14,940               |
| Gifts and contributions         | 4,500                   | 4,500                | 32,303               | 27,803               |
| Investment income               | 600,000                 | 600,000              | 650,487              | 50,487               |
| Miscellaneous                   | 314,426                 | 314,426              | 444,549              | 130,123              |
| <b>Total Revenues</b>           | <b>\$ 15,892,875</b>    | <b>\$ 15,892,875</b> | <b>\$ 16,579,397</b> | <b>\$ 686,522</b>    |
| <b>Expenditures</b>             |                         |                      |                      |                      |
| <b>Current</b>                  |                         |                      |                      |                      |
| <b>General government</b>       |                         |                      |                      |                      |
| Commissioners                   | \$ 273,953              | \$ 273,953           | \$ 338,488           | \$ (64,535)          |
| Courts                          | 152,301                 | 152,301              | 132,715              | 19,586               |
| Law library                     | 31,585                  | 31,585               | 25,722               | 5,863                |
| County auditor                  | 867,350                 | 867,350              | 855,679              | 11,671               |
| License bureau                  | 272,513                 | 272,513              | 273,676              | (1,163)              |
| County assessor                 | 759,029                 | 759,029              | 770,543              | (11,514)             |
| Data processing                 | 829,052                 | 829,052              | 804,908              | 24,144               |
| Personnel                       | 156,394                 | 156,394              | 150,977              | 5,417                |
| Attorney                        | 860,609                 | 860,609              | 932,253              | (71,644)             |
| Recorder                        | 509,270                 | 509,270              | 606,981              | (97,711)             |
| Surveyor                        | 15,000                  | 15,000               | 15,000               | -                    |
| Planning and zoning             | 361,784                 | 361,784              | 352,108              | 9,676                |
| Maintenance                     | 717,302                 | 717,302              | 725,947              | (8,645)              |
| Veterans service officer        | 261,432                 | 261,432              | 287,566              | (26,134)             |
| <b>Total general government</b> | <b>\$ 6,067,574</b>     | <b>\$ 6,067,574</b>  | <b>\$ 6,272,563</b>  | <b>\$ (204,989)</b>  |

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Schedule 1**  
**(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

|  | <b>Budgeted Amounts</b> |                     | <b>Actual</b>       | <b>Variance with</b> |
|--|-------------------------|---------------------|---------------------|----------------------|
|  | <b>Original</b>         | <b>Final</b>        | <b>Amounts</b>      | <b>Final Budget</b>  |
| <b>Expenditures</b>                            |                         |                     |                     |                      |
| <b>Current (Continued)</b>                     |                         |                     |                     |                      |
| <b>Public safety</b>                           |                         |                     |                     |                      |
| Sheriff  | \$ 2,570,065            | \$ 2,570,065        | \$ 2,521,590        | \$ 48,475            |
| Snowmobile safety                              | 5,000                   | 5,000               | 6,073               | (1,073)              |
| Boat and water safety                          | 10,000                  | 10,000              | 11,528              | (1,528)              |
| Ambulance                                      | 74,427                  | 74,427              | 74,427              | -                    |
| Animal control                                 | 6,180                   | 6,180               | 6,180               | -                    |
| Coroner  | 45,180                  | 45,180              | 50,327              | (5,147)              |
| E-911  | 759,841                 | 759,841             | 728,844             | 30,997               |
| County jail                                    | 1,782,208               | 1,782,208           | 1,634,430           | 147,778              |
| Community corrections                          | 1,339,223               | 1,339,223           | 1,339,223           | -                    |
| Court services                                 | -                       | -                   | 5,292               | (5,292)              |
| Civil defense                                  | 39,519                  | 39,519              | 34,520              | 4,999                |
| <b>Total public safety</b>                     | <b>\$ 6,631,643</b>     | <b>\$ 6,631,643</b> | <b>\$ 6,412,434</b> | <b>\$ 219,209</b>    |
| <b>Sanitation</b>                              |                         |                     |                     |                      |
| Solid waste                                    | \$ 1,047,397            | \$ 1,047,397        | \$ 959,661          | \$ 87,736            |
| Recycling                                      | 177,022                 | 177,022             | 166,085             | 10,937               |
| <b>Total sanitation</b>                        | <b>\$ 1,224,419</b>     | <b>\$ 1,224,419</b> | <b>\$ 1,125,746</b> | <b>\$ 98,673</b>     |
| <b>Culture and recreation</b>                  |                         |                     |                     |                      |
| Historical society                             | \$ 41,200               | \$ 41,200           | \$ 41,200           | \$ -                 |
| County fair                                    | 36,750                  | 36,750              | 34,156              | 2,594                |
| Parks  | 79,335                  | 79,335              | 74,224              | 5,111                |
| Regional library                               | 165,877                 | 165,877             | 165,877             | -                    |
| Trails   | -                       | -                   | 288,257             | (288,257)            |
| <b>Total culture and recreation</b>            | <b>\$ 323,162</b>       | <b>\$ 323,162</b>   | <b>\$ 603,714</b>   | <b>\$ (280,552)</b>  |
| <b>Conservation of natural resources</b>       |                         |                     |                     |                      |
| County extension                               | \$ 431,121              | \$ 431,121          | \$ 403,880          | \$ 27,241            |
| Soil and water conservation                    | 99,910                  | 99,910              | 107,410             | (7,500)              |
| Weed inspector                                 | 6,653                   | 6,653               | 5,540               | 1,113                |
| Forestry assistance                            | 9,000                   | 9,000               | -                   | 9,000                |
| Timber development                             | 10,000                  | 10,000              | 592                 | 9,408                |
| Resource development                           | 41,000                  | 41,000              | 16,434              | 24,566               |
| Water planning                                 | 82,107                  | 82,107              | 57,727              | 24,380               |
| <b>Total conservation of natural resources</b> | <b>\$ 679,791</b>       | <b>\$ 679,791</b>   | <b>\$ 591,583</b>   | <b>\$ 88,208</b>     |

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

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Schedule 1**  
**(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

|   | <b>Budgeted Amounts</b> |                      | <b>Actual</b>        | <b>Variance with</b> |
|---|-------------------------|----------------------|----------------------|----------------------|
|   | <b>Original</b>         | <b>Final</b>         | <b>Amounts</b>       | <b>Final Budget</b>  |
| <b>Expenditures</b>                         |                         |                      |                      |                      |
| <b>Current (Continued)</b>                  |                         |                      |                      |                      |
| <b>Economic development</b>                 |                         |                      |                      |                      |
| Airport commission                          | \$ 775,134              | \$ 775,134           | \$ 290,933           | \$ 484,201           |
| Rail authority                              | 10,000                  | 10,000               | 3,137                | 6,863                |
| Small cities grant                          | -                       | -                    | 54,119               | (54,119)             |
| Iron Range Resources and Rehabilitation     | 8,571                   | 8,571                | 271,443              | (262,872)            |
| <b>Total economic development</b>           | <b>\$ 793,705</b>       | <b>\$ 793,705</b>    | <b>\$ 619,632</b>    | <b>\$ 174,073</b>    |
| <b>Debt service</b>                         |                         |                      |                      |                      |
| Principal                                   | \$ -                    | \$ -                 | \$ 131,313           | \$ (131,313)         |
| Interest                                    | -                       | -                    | 16,250               | (16,250)             |
| <b>Total debt service</b>                   | <b>\$ -</b>             | <b>\$ -</b>          | <b>\$ 147,563</b>    | <b>\$ (147,563)</b>  |
| <b>Total Expenditures</b>                   | <b>\$ 15,720,294</b>    | <b>\$ 15,720,294</b> | <b>\$ 15,773,235</b> | <b>\$ (52,941)</b>   |
| <b>Excess of Revenues Over (Under)</b>      |                         |                      |                      |                      |
| <b>Expenditures</b>                         | <b>\$ 172,581</b>       | <b>\$ 172,581</b>    | <b>\$ 806,162</b>    | <b>\$ 633,581</b>    |
| <b>Other Financing Sources (Uses)</b>       |                         |                      |                      |                      |
| Transfers in                                | \$ 55,000               | \$ 55,000            | \$ 131,290           | \$ 76,290            |
| Transfers out                               | -                       | -                    | (16,558)             | (16,558)             |
| <b>Total Other Financing Sources (Uses)</b> | <b>\$ 55,000</b>        | <b>\$ 55,000</b>     | <b>\$ 114,732</b>    | <b>\$ 59,732</b>     |
| <b>Net Change in Fund Balance</b>           | <b>\$ 227,581</b>       | <b>\$ 227,581</b>    | <b>\$ 920,894</b>    | <b>\$ 693,313</b>    |
| <b>Fund Balance - January 1</b>             | <b>12,211,319</b>       | <b>12,211,319</b>    | <b>12,211,319</b>    | <b>-</b>             |
| <b>Fund Balance - December 31</b>           | <b>\$ 12,438,900</b>    | <b>\$ 12,438,900</b> | <b>\$ 13,132,213</b> | <b>\$ 693,313</b>    |

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Schedule 2**

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

|  | <b>Budgeted Amounts</b> |                       | <b>Actual</b>         | <b>Variance with</b>  |
|--|-------------------------|-----------------------|-----------------------|-----------------------|
|  | <b>Original</b>         | <b>Final</b>          | <b>Amounts</b>        | <b>Final Budget</b>   |
| <b>Revenues</b>  |                         |                       |                       |                       |
| Taxes  | \$ 2,497,257            | \$ 2,497,257          | \$ 2,507,184          | \$ 9,927              |
| Intergovernmental                                      | 3,098,577               | 3,098,577             | 3,843,985             | 745,408               |
| Charges for services                                   | 471,500                 | 471,500               | 391,152               | (80,348)              |
| Investment income                                      | -                       | -                     | 60,900                | 60,900                |
| Miscellaneous  | 439,170                 | 439,170               | 600,771               | 161,601               |
| <b>Total Revenues</b>                                  | <b>\$ 6,506,504</b>     | <b>\$ 6,506,504</b>   | <b>\$ 7,403,992</b>   | <b>\$ 897,488</b>     |
| <b>Expenditures</b>                                    |                         |                       |                       |                       |
| <b>Current</b>   |                         |                       |                       |                       |
| <b>Highways and streets</b>                            |                         |                       |                       |                       |
| Administration   | \$ 467,321              | \$ 467,321            | \$ 596,198            | \$ (128,877)          |
| Maintenance  | 2,406,818               | 2,406,818             | 2,719,868             | (313,050)             |
| Construction   | 3,635,728               | 3,635,728             | 4,403,130             | (767,402)             |
| Equipment maintenance and shop                         | 1,431,637               | 1,431,637             | 1,291,252             | 140,385               |
| <b>Total Expenditures</b>                              | <b>\$ 7,941,504</b>     | <b>\$ 7,941,504</b>   | <b>\$ 9,010,448</b>   | <b>\$ (1,068,944)</b> |
| <b>Excess of Revenues Over (Under)</b>                 |                         |                       |                       |                       |
| <b>Expenditures</b>                                    | <b>\$ (1,435,000)</b>   | <b>\$ (1,435,000)</b> | <b>\$ (1,606,456)</b> | <b>\$ (171,456)</b>   |
| <b>Fund Balance - January 1</b>                        | <b>5,121,175</b>        | <b>5,121,175</b>      | <b>5,121,175</b>      | <b>-</b>              |
| <b>Increase (decrease) in reserved for inventories</b> | <b>-</b>                | <b>-</b>              | <b>145,743</b>        | <b>145,743</b>        |
| <b>Fund Balance - December 31</b>                      | <b>\$ 3,686,175</b>     | <b>\$ 3,686,175</b>   | <b>\$ 3,660,462</b>   | <b>\$ (25,713)</b>    |

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Schedule 3**

**BUDGETARY COMPARISON SCHEDULE  
HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

|  | <b>Budgeted Amounts</b> |                      | <b>Actual</b>        | <b>Variance with</b> |
|--|-------------------------|----------------------|----------------------|----------------------|
|  | <b>Original</b>         | <b>Final</b>         | <b>Amounts</b>       | <b>Final Budget</b>  |
| <b>Revenues</b>                        |                         |                      |                      |                      |
| Taxes                                  | \$ 4,108,331            | \$ 4,108,331         | \$ 4,063,881         | \$ (44,450)          |
| Intergovernmental                      | 8,149,182               | 8,149,182            | 8,258,088            | 108,906              |
| Charges for services                   | 115,102                 | 115,102              | 192,491              | 77,389               |
| Gifts and contributions                | 522                     | 522                  | 1,670                | 1,148                |
| Miscellaneous                          | 2,047,799               | 2,047,799            | 1,778,153            | (269,646)            |
| <b>Total Revenues</b>                  | <b>\$ 14,420,936</b>    | <b>\$ 14,420,936</b> | <b>\$ 14,294,283</b> | <b>\$ (126,653)</b>  |
| <b>Expenditures</b>                    |                         |                      |                      |                      |
| <b>Current</b>                         |                         |                      |                      |                      |
| <b>Human services</b>                  |                         |                      |                      |                      |
| Income maintenance                     | \$ 3,335,024            | \$ 3,335,024         | \$ 3,374,172         | \$ (39,148)          |
| Social services                        | 8,710,536               | 8,710,536            | 8,738,399            | (27,863)             |
| <b>Total human services</b>            | <b>\$ 12,045,560</b>    | <b>\$ 12,045,560</b> | <b>\$ 12,112,571</b> | <b>\$ (67,011)</b>   |
| <b>Health</b>                          |                         |                      |                      |                      |
| Home care                              | \$ 2,392,376            | \$ 2,392,376         | \$ 1,512,583         | \$ 879,793           |
| Family health                          | -                       | -                    | 809,225              | (809,225)            |
| Disease control and prevention         | -                       | -                    | 93,601               | (93,601)             |
| <b>Total health</b>                    | <b>\$ 2,392,376</b>     | <b>\$ 2,392,376</b>  | <b>\$ 2,415,409</b>  | <b>\$ (23,033)</b>   |
| <b>Capital outlay</b>                  | <b>\$ -</b>             | <b>\$ -</b>          | <b>\$ 121,590</b>    | <b>\$ (121,590)</b>  |
| <b>Total Expenditures</b>              | <b>\$ 14,437,936</b>    | <b>\$ 14,437,936</b> | <b>\$ 14,649,570</b> | <b>\$ (211,634)</b>  |
| <b>Excess of Revenues Over (Under)</b> |                         |                      |                      |                      |
| <b>Expenditures</b>                    | <b>\$ (17,000)</b>      | <b>\$ (17,000)</b>   | <b>\$ (355,287)</b>  | <b>\$ (338,287)</b>  |
| <b>Other Financing Sources (Uses)</b>  |                         |                      |                      |                      |
| Transfers in                           | 17,000                  | 17,000               | 16,558               | (442)                |
| <b>Net Change in Fund Balance</b>      | <b>\$ -</b>             | <b>\$ -</b>          | <b>\$ (338,729)</b>  | <b>\$ (338,729)</b>  |
| <b>Fund Balance - January 1</b>        | <b>5,455,355</b>        | <b>5,455,355</b>     | <b>5,455,355</b>     | <b>-</b>             |
| <b>Fund Balance - December 31</b>      | <b>\$ 5,455,355</b>     | <b>\$ 5,455,355</b>  | <b>\$ 5,116,626</b>  | <b>\$ (338,729)</b>  |

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Schedule 4**

**BUDGETARY COMPARISON SCHEDULE  
FORFEITED TAX SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

|  | <b>Budgeted Amounts</b> |                   | <b>Actual</b>       | <b>Variance with</b> |
|--|-------------------------|-------------------|---------------------|----------------------|
|  | <b>Original</b>         | <b>Final</b>      | <b>Amounts</b>      | <b>Final Budget</b>  |
| <b>Revenues</b>                          |                         |                   |                     |                      |
| Taxes                                    | \$ 259,313              | \$ 259,313        | \$ 20,351           | \$ (238,962)         |
| Intergovernmental                        | -                       | -                 | 555                 | 555                  |
| Miscellaneous                            | -                       | -                 | 486,493             | 486,493              |
| <b>Total Revenues</b>                    | <b>\$ 259,313</b>       | <b>\$ 259,313</b> | <b>\$ 507,399</b>   | <b>\$ 248,086</b>    |
| <b>Expenditures</b>                      |                         |                   |                     |                      |
| <b>Current</b>                           |                         |                   |                     |                      |
| <b>General government</b>                |                         |                   |                     |                      |
| County auditor/treasurer                 | \$ -                    | \$ -              | \$ 51,068           | \$ (51,068)          |
| <b>Conservation of natural resources</b> |                         |                   |                     |                      |
| Land use                                 | 259,313                 | 259,313           | 472,105             | (212,792)            |
| <b>Total Expenditures</b>                | <b>\$ 259,313</b>       | <b>\$ 259,313</b> | <b>\$ 523,173</b>   | <b>\$ (263,860)</b>  |
| <b>Excess of Revenues Over (Under)</b>   |                         |                   |                     |                      |
| <b>Expenditures</b>                      | <b>\$ -</b>             | <b>\$ -</b>       | <b>\$ (15,774)</b>  | <b>\$ (15,774)</b>   |
| <b>Other Financing Sources (Uses)</b>    |                         |                   |                     |                      |
| Transfers out                            | -                       | -                 | (131,290)           | (131,290)            |
| <b>Net Change in Fund Balance</b>        | <b>\$ -</b>             | <b>\$ -</b>       | <b>\$ (147,064)</b> | <b>\$ (147,064)</b>  |
| <b>Fund Balance - January 1</b>          | <b>195,755</b>          | <b>195,755</b>    | <b>195,755</b>      | <b>-</b>             |
| <b>Fund Balance - December 31</b>        | <b>\$ 195,755</b>       | <b>\$ 195,755</b> | <b>\$ 48,691</b>    | <b>\$ (147,064)</b>  |



**CARLTON COUNTY  
CARLTON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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**1. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end.

In July of each year, all departments and agencies submit requests for appropriations to the County Auditor/Treasurer so that a budget can be prepared. Before September 15, the proposed budget is presented to the County Board for review. A final budget is adopted by the Board and certified to the Auditor/Treasurer by December 28.

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

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

**2. Excess of Expenditures Over Appropriations**

For the year ended December 31, 2008, expenditures exceeded appropriations in the following funds:

|                                      |           |   |
|--------------------------------------|-----------|---|
| General Fund                         | \$ 52,941 | Unbudgeted trail expenditures and higher than anticipated general government expenditures |
| Road and Bridge Special Revenue Fund | 1,068,944 | Higher than anticipated construction expenditures   |
| Human Services Special Revenue Fund  | 211,634   | Unbudgeted capital outlay expenditures for new human services building                    |
| Forfeited Tax Special Revenue Fund   | 263,860   | Higher than budgeted capital outlay expenditures and higher forfeited tax apportionment   |

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## **SUPPLEMENTARY INFORMATION**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Schedule 5**

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

|  | <b>Budgeted Amounts</b> |                     | <b>Actual</b>       | <b>Variance with</b> |
|--|-------------------------|---------------------|---------------------|----------------------|
|  | <b>Original</b>         | <b>Final</b>        | <b>Amounts</b>      | <b>Final Budget</b>  |
| <b>Revenues</b>                        |                         |                     |                     |                      |
| Taxes                                  | \$ 646,008              | \$ 646,008          | \$ 646,393          | \$ 385               |
| Intergovernmental                      | 73,378                  | 73,378              | 73,378              | -                    |
| <b>Total Revenues</b>                  | <b>\$ 719,386</b>       | <b>\$ 719,386</b>   | <b>\$ 719,771</b>   | <b>\$ 385</b>        |
| <b>Expenditures</b>                    |                         |                     |                     |                      |
| <b>Debt service</b>                    |                         |                     |                     |                      |
| Principal                              | \$ 522,836              | \$ 522,836          | \$ 695,000          | \$ (172,164)         |
| Interest                               | 196,550                 | 196,550             | 313,993             | (117,443)            |
| Administrative (fiscal) charges        | -                       | -                   | 1,913               | (1,913)              |
| <b>Total Expenditures</b>              | <b>\$ 719,386</b>       | <b>\$ 719,386</b>   | <b>\$ 1,010,906</b> | <b>\$ (291,520)</b>  |
| <b>Excess of Revenues Over (Under)</b> |                         |                     |                     |                      |
| <b>Expenditures</b>                    | \$ -                    | \$ -                | \$ (291,135)        | \$ (291,135)         |
| <b>Fund Balance - January 1</b>        | <b>1,183,231</b>        | <b>1,183,231</b>    | <b>1,183,231</b>    | <b>-</b>             |
| <b>Fund Balance - December 31</b>      | <b>\$ 1,183,231</b>     | <b>\$ 1,183,231</b> | <b>\$ 892,096</b>   | <b>\$ (291,135)</b>  |

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Statement 1**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

|  | <u>Balance<br/>January 1</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance<br/>December 31</u> |
|--|------------------------------|------------------|-------------------|--------------------------------|
| <b><u>MOTOR VEHICLE REGISTRATION</u></b> |                              |                  |                   |                                |
| <b><u>Assets</u></b>                     |                              |                  |                   |                                |
| Cash and pooled investments              | \$ -                         | \$ 4,072,060     | \$ 4,072,060      | \$ -                           |
| <b><u>Liabilities</u></b>                |                              |                  |                   |                                |
| Accounts payable                         | \$ -                         | \$ 4,072,060     | \$ 4,072,060      | \$ -                           |
| <b><u>EMPLOYEE FLEXIBLE BENEFITS</u></b> |                              |                  |                   |                                |
| <b><u>Assets</u></b>                     |                              |                  |                   |                                |
| Cash and pooled investments              | \$ 87,025                    | \$ 118,902       | \$ 126,676        | \$ 79,251                      |
| <b><u>Liabilities</u></b>                |                              |                  |                   |                                |
| Accounts payable                         | \$ 87,025                    | \$ 118,902       | \$ 126,676        | \$ 79,251                      |
| <b><u>STATE</u></b>                      |                              |                  |                   |                                |
| <b><u>Assets</u></b>                     |                              |                  |                   |                                |
| Cash and pooled investments              | \$ 103,185                   | \$ 3,594,881     | \$ 3,629,523      | \$ 68,543                      |
| <b><u>Liabilities</u></b>                |                              |                  |                   |                                |
| Due to other governments                 | \$ 103,185                   | \$ 3,594,881     | \$ 3,629,523      | \$ 68,543                      |

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*Statement 1*  
*(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

|                                   | <u>Balance<br/>January 1</u> | <u>Additions</u>     | <u>Deductions</u>    | <u>Balance<br/>December 31</u> |
|-----------------------------------|------------------------------|----------------------|----------------------|--------------------------------|
| <b><u>SCHOOL DISTRICTS</u></b>    |                              |                      |                      |                                |
| <b><u>Assets</u></b>              |                              |                      |                      |                                |
| Cash and pooled investments       | \$ <u>106,405</u>            | \$ <u>7,675,173</u>  | \$ <u>7,638,260</u>  | \$ <u>143,318</u>              |
| <b><u>Liabilities</u></b>         |                              |                      |                      |                                |
| Due to other governments          | \$ <u>106,405</u>            | \$ <u>7,675,173</u>  | \$ <u>7,638,260</u>  | \$ <u>143,318</u>              |
| <b><u>TOWNS AND CITIES</u></b>    |                              |                      |                      |                                |
| <b><u>Assets</u></b>              |                              |                      |                      |                                |
| Cash and pooled investments       | \$ <u>92,065</u>             | \$ <u>7,543,143</u>  | \$ <u>7,529,489</u>  | \$ <u>105,719</u>              |
| <b><u>Liabilities</u></b>         |                              |                      |                      |                                |
| Due to other governments          | \$ <u>92,065</u>             | \$ <u>7,543,143</u>  | \$ <u>7,529,489</u>  | \$ <u>105,719</u>              |
| <b><u>TAXES AND PENALTIES</u></b> |                              |                      |                      |                                |
| <b><u>Assets</u></b>              |                              |                      |                      |                                |
| Cash and pooled investments       | \$ <u>-</u>                  | \$ <u>34,970,482</u> | \$ <u>34,970,482</u> | \$ <u>-</u>                    |
| <b><u>Liabilities</u></b>         |                              |                      |                      |                                |
| Due to other governments          | \$ <u>-</u>                  | \$ <u>34,970,482</u> | \$ <u>34,970,482</u> | \$ <u>-</u>                    |

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Statement 1**  
**(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

|   | <u>Balance<br/>January 1</u> | <u>Additions</u>  | <u>Deductions</u>   | <u>Balance<br/>December 31</u> |
|---|------------------------------|-------------------|---------------------|--------------------------------|
| <b><u>NORTHEASTERN WASTE ADVISORY<br/>COUNCIL</u></b> |                              |                   |                     |                                |
| <b><u>Assets</u></b>                                  |                              |                   |                     |                                |
| Cash and pooled investments                           | \$ 1,192                     | \$ -              | \$ -                | \$ 1,192                       |
| <b><u>Liabilities</u></b>                             |                              |                   |                     |                                |
| Due to other governments                              | \$ 1,192                     | \$ -              | \$ -                | \$ 1,192                       |
| <b><u>REFUNDING</u></b>                               |                              |                   |                     |                                |
| <b><u>Assets</u></b>                                  |                              |                   |                     |                                |
| Cash and pooled investments                           | \$ 45,365                    | \$ 394,617        | \$ 413,483          | \$ 26,499                      |
| <b><u>Liabilities</u></b>                             |                              |                   |                     |                                |
| Accounts payable                                      | \$ 23,194                    | \$ 372,114        | \$ 391,312          | \$ 3,996                       |
| Due to other governments                              | 22,171                       | 22,503            | 22,171              | 22,503                         |
| <b>Total Liabilities</b>                              | <b>\$ 45,365</b>             | <b>\$ 394,617</b> | <b>\$ 413,483</b>   | <b>\$ 26,499</b>               |
| <b><u>COLLABORATIVE</u></b>                           |                              |                   |                     |                                |
| <b><u>Assets</u></b>                                  |                              |                   |                     |                                |
| Cash and pooled investments                           | \$ 997,198                   | \$ 677,367        | \$ 1,161,121        | \$ 513,444                     |
| <b><u>Liabilities</u></b>                             |                              |                   |                     |                                |
| Accounts payable                                      | \$ 2,569                     | \$ 30,145         | \$ 2,569            | \$ 30,145                      |
| Salaries payable                                      | 2,900                        | 7,417             | 2,900               | 7,417                          |
| Due to other governments                              | 991,729                      | 639,805           | 1,155,652           | 475,882                        |
| <b>Total Liabilities</b>                              | <b>\$ 997,198</b>            | <b>\$ 677,367</b> | <b>\$ 1,161,121</b> | <b>\$ 513,444</b>              |



**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Statement 1**  
**(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

|   | <u>Balance</u><br><u>January 1</u> | <u>Additions</u>     | <u>Deductions</u>    | <u>Balance</u><br><u>December 31</u> |
|---|------------------------------------|----------------------|----------------------|--------------------------------------|
| <b><u>ARROWHEAD HEALTH ALLIANCE</u></b> |                                    |                      |                      |                                      |
| <b><u>Assets</u></b>                    |                                    |                      |                      |                                      |
| Cash and pooled investments             | \$ 387,465                         | \$ 65,733            | \$ 112,794           | \$ 340,404                           |
| <b><u>Liabilities</u></b>               |                                    |                      |                      |                                      |
| Accounts payable                        | \$ 9,681                           | \$ -                 | \$ 8,333             | \$ 1,348                             |
| Due to other governments                | 377,784                            | 65,733               | 104,461              | 339,056                              |
| <b>Total Liabilities</b>                | <b>\$ 387,465</b>                  | <b>\$ 65,733</b>     | <b>\$ 112,794</b>    | <b>\$ 340,404</b>                    |
| <b><u>TOTAL ALL AGENCY FUNDS</u></b>    |                                    |                      |                      |                                      |
| <b><u>Assets</u></b>                    |                                    |                      |                      |                                      |
| Cash and pooled investments             | \$ 1,819,900                       | \$ 59,112,358        | \$ 59,653,888        | \$ 1,278,370                         |
| <b><u>Liabilities</u></b>               |                                    |                      |                      |                                      |
| Accounts payable                        | \$ 122,469                         | \$ 4,593,221         | \$ 4,600,950         | \$ 114,740                           |
| Salaries payable                        | 2,900                              | 7,417                | 2,900                | 7,417                                |
| Due to other governments                | 1,694,531                          | 54,511,720           | 55,050,038           | 1,156,213                            |
| <b>Total Liabilities</b>                | <b>\$ 1,819,900</b>                | <b>\$ 59,112,358</b> | <b>\$ 59,653,888</b> | <b>\$ 1,278,370</b>                  |

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## **OTHER SCHEDULE**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Schedule 6**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**Shared Revenue**

**State**

|                         |              |
|-------------------------|--------------|
| Highway users tax       | \$ 3,070,938 |
| County program aid      | 1,470,322    |
| PERA rate reimbursement | 54,851       |
| Disparity reduction aid | 368,219      |
| Police aid              | 130,379      |
| E-911                   | 112,304      |
| Market value credit     | 1,477,654    |
| Casino revenue aid      | 23,092       |
|                         | <hr/>        |

|                             |                     |
|-----------------------------|---------------------|
| <b>Total Shared Revenue</b> | <b>\$ 6,707,759</b> |
|                             | <hr/>               |

**Reimbursement for Services**

**State**

|  |            |
|--|------------|
| Minnesota Department of Human Services | \$ 939,928 |
|  | <hr/>      |

**Payments**

**Local**

|                              |           |
|------------------------------|-----------|
| Carlton County Collaborative | \$ 27,500 |
| Household hazardous waste    | 14,132    |
| Other local contributions    | 296,138   |

**State**

|                           |         |
|---------------------------|---------|
| Payments in lieu of taxes | 219,037 |
|                           | <hr/>   |

|                       |                   |
|-----------------------|-------------------|
| <b>Total Payments</b> | <b>\$ 556,807</b> |
|                       | <hr/>             |

**Grants**

**State**

|   |           |
|---|-----------|
| Minnesota Department/Board of                 |           |
| Public Safety                                 | \$ 43,862 |
| Transportation                                | 48,371    |
| Health  | 242,223   |
| Natural Resources                             | 223,444   |
| Human Services                                | 2,493,498 |
| Water and Soil Resources                      | 115,380   |
| Veterans Affairs                              | 78,882    |
| Office of Environmental Assistance            | 84,287    |
| Peace Officer Standards and Training Board    | 10,013    |
| Iron Range Resources and Rehabilitation Board | 284,172   |
|   | <hr/>     |

|                    |                     |
|--------------------|---------------------|
| <b>Total State</b> | <b>\$ 3,624,132</b> |
|                    | <hr/>               |

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Schedule 6  
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**Grants (Continued)**

**Federal**

|                                 |            |
|---------------------------------|------------|
| Department of                   |            |
| Agriculture                     | \$ 391,161 |
| Commerce                        | 89,100     |
| Housing and Urban Development   | 54,119     |
| Justice                         | 10,627     |
| Transportation                  | 396,760    |
| Homeland Security               | 18,298     |
| Health and Human Services       | 3,185,435  |
| Environmental Protection Agency | 3,587      |

|                      |                     |
|----------------------|---------------------|
| <b>Total Federal</b> | <b>\$ 4,149,087</b> |
|----------------------|---------------------|

|                                       |                     |
|---------------------------------------|---------------------|
| <b>Total State and Federal Grants</b> | <b>\$ 7,773,219</b> |
|---------------------------------------|---------------------|

|  |                      |
|--|----------------------|
| <b>Total Intergovernmental Revenue</b> | <b>\$ 15,977,713</b> |
|--|----------------------|



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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Schedule 7**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**I. SUMMARY OF AUDITOR'S RESULTS**

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

G. The major programs are:

|                            |              |
|----------------------------|--------------|
| Child Support Enforcement  | CFDA #93.563 |
| Foster Care - Title IV-E   | CFDA #93.658 |
| Medical Assistance Program | CFDA #93.778 |

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

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

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

##### 96-11 Capital Assets

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

Governmental Accounting Standards Board (GASB) Statement 34 requires governments to include capital assets on the statement of net assets and to report depreciation expense for those assets on the statement of activities. In addition, capital outlay expenditures in a governmental fund's statement of revenues and expenditures are eliminated in the statement of activities.

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

reporting requirements of GASB Statement 34. Information needed for reporting includes capital assets by major asset category, capital outlay expenditures by department and major expenditure function, and depreciation expense by department and major expenditure function.

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

1. Adopt a capitalization policy that sets a minimum dollar value for an asset to be accounted for on the capital asset system. Determine the useful lives for various classes of assets to be used for depreciation purposes and the general ledger account codes to be used to record capital asset transactions.
2. Identify the information that will need to be captured by a capital asset accounting system and establish a system that will provide the information needed to comply with the reporting requirements of GASB Statement 34.
3. Inventory all capital assets, including infrastructure assets, owned by the County and assign responsibility for each asset to a particular department head or official.
4. Assign actual or estimated historical cost to each item. Enter the information into the capital asset system.
5. Maintain the capital asset accounting system on a current basis. Procedures will need to be established on how disposals of capital assets will be identified by department heads and how the information will be transmitted to the person responsible for maintaining the capital asset system.
6. Periodically verify departmental inventory by physical inspection.

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

Client's Response:

*The County has contracted with the Government Management Group who will provide assistance to Carlton County in the determination and valuation of the County's capital assets. GMG will also assist the County in the establishment of policies and procedures for the implementation and maintenance of a capital asset management system. Although this project has yet to be undertaken, it is the intention of the Carlton County Board of Commissioners that this task be accomplished during the year 2010.*

96-12 Segregation of Duties

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

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

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

Client's Response:

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

96-18 Jail Canteen Account

The County Sheriff operates a canteen fund to purchase and sell items used by the prisoners in the jail. Revenues received from the sale of items and all purchases of goods for resale are handled through a separate checking account. Profits from the canteen operation are turned over to the County and recorded on the County's general ledger system, but the remainder of the activity is not accounted for in the County's general ledger system.

The canteen fund has been in operation for many years, and it is unknown how the original start-up inventory was funded. However, it is our belief that canteen funds meet the criteria of County funds and should be accounted for in the County's general ledger system. The funds are both collected and administered by on-duty public employees acting on behalf of the County, using County facilities, and fulfilling their responsibilities to care for County prisoners. The recording of these funds on the County's general ledger system would not preclude the County Board from using the profits of the canteen fund for the benefit of the inmates.

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

Client's Response:

*The County Auditor will work with the County Board and County Sheriff to include the jail canteen accounts within the general ledger system while maintaining the dedication of the funds for the benefit of the inmates.*

06-1 Preparation of Financial Statements

The County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal controls over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

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

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

Client's Response:

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

06-2 Audit Adjustments

A control deficiency 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 misstatements of the financial statements on a timely basis. Statement on Auditing Standards 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

During our audit, we identified material adjustments that resulted in significant changes to the County's financial statements. The County provides cash basis financial statements and prepares some of the modified accrual information necessary to adjust the cash basis financial statements to the modified accrual basis. However, County staff have not had the time to prepare all of the information necessary to provide accurate financial statements. Therefore, audit adjustments were necessary to record additional receivables and payables found during the audit, record the fair value adjustment for cash and pooled investments, record trail grant revenues and expenditures, close out the capital projects fund, adjust reserves, adjust state-aid highway allotments, adjust loans receivable balances, and make reclassification entries as necessary. Audit adjustments were also necessary to adjust modified accrual financial statements to the accrual basis for the government-wide financial statements.

We recommend that County staff review the trial balances and journal entries in detail to ensure they have an understanding of all audit adjustments made so that, in future audits, this information can be prepared by the County.

Client's Response:

*The Carlton County Auditor/Treasurer will work to review the trial balances and journal entries in detail so as to ensure that there is an understanding of all audit adjustments made so that in future audits, this information can be prepared by County Staff.*

06-3 Journal Entries

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

The ability to make journal entries on the IFS general ledger system is a powerful function. It allows those employees with access to the journal entry function to make changes to the general ledger system. To prevent abuse of this function, it should be limited to those employees who have a logical need for this access. Also needed is a procedure for review and approval of the journal entries made.

We recommend the County Auditor/Treasurer review the access to the journal entry function to determine if there is a logical need for that access for all employees who have access. We also recommend a procedure be established to require review and approval of journal entries by someone other than the person making the journal entries. This person should obtain an understanding of the journal entry and its purpose before approval. The

approval could be documented by signature on a journal entry form or a printed copy of the journal entry made. Supporting documentation or sufficient explanation should be attached to or included on the journal entry to explain why the journal entry is being made and who is making the journal entry. Journal entries should be filed in a manner that allows for their review should questions arise. A report should be generated from the IFS that lists all journal entries made. The person charged with review and approval of journal entries should periodically review this report. Review of this report would be to ensure that no journal entries have been made which have not been submitted for review and approval.

Client's Response:

*The County Auditor's Office staff will review the access to journal entry functions so as to determine the need for access by selected employees. It is further the intent of the Auditor's Office to establish review and approval procedures for all journal entries.*

06-4 Accounting Policies and Procedures Manual

The County does not have a current and comprehensive accounting policies and procedures manual. All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures which make up the County's internal control system.

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

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



Client's Response:

*Carlton County will work with the State Auditor's Office staff (and other governmental entities) to establish an accounting policies and procedures manual.*

06-5 Computer Risk Management

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

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

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

Client's Response:

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

07-1 Approval of Time Sheets

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

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

Client's Response:

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

ITEM ARISING THIS YEAR

08-1 Other Postemployment Benefits (OPEB)

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

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

We recommend the County Board determine the County's net OPEB liability and annual OPEB cost in accordance with the requirements of GASB Statement 45. This will require the County Board to hire an actuary to determine this liability.

Client's Response:

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

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS.**

None.

#### IV. OTHER FINDINGS AND RECOMMENDATIONS

##### A. MINNESOTA LEGAL COMPLIANCE

##### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

###### 96-3 Electronic Funds Transfers

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

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

##### Client's Response:

*The County has obtained copies of other counties' policies and drafted a policy to fit the needs of Carlton County. This draft policy will be presented to the County Board for their consideration and/or approval.*

###### 96-4 Unclaimed Funds

The Minnesota Unclaimed Property Law requires that uncashed vendor or refund checks be reported to the state after three years. The reporting requirements for unclaimed property and its payment to the Commissioner of the Minnesota Department of Commerce are detailed in Minn. Stat. §§ 345.41-.43. The County Auditor/Treasurer has established a system for keeping track of checks to be reported to the Commissioner. However, the County Auditor/Treasurer has not filed any unclaimed property reports with the state or turned over any money to the state. Any person who willfully refuses to pay or deliver abandoned property to the Commissioner under the above-mentioned statute shall be guilty of a gross misdemeanor [Minn. Stat. § 345.55]. Our review of the County's documentation of unclaimed checks reveals the amount of unclaimed checks that have not been turned over to the state to be approximately \$40,775 as of December 31, 2008.

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

Client's Response:

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

96-25

Travel Policy

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

Minnesota law requires each county to "have on record a policy that controls travel outside of the state of Minnesota for elected officials." Minn. Stat. § 471.661. The policy must be approved by a recorded vote and specify when travel outside of the state is appropriate, applicable expense limits, and procedures for approved travel. *Id.*

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

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

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

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

Client's Response:

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

04-1 Publication of Financial Statements

The County is required by Minn. Stat. § 375.17 to annually publish its financial statements. The County Auditor/Treasurer has not published the financial statements for the years 2003-2007.

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

Client's Response:

*It is the goal of Carlton County to ensure the timely completion and publication of the County financial statements as required.*

ITEMS ARISING THIS YEAR

08-2 Collateral Assignments

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

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

Current collateral assignments are necessary to determine that proper statutory language is included in the collateral assignments so that the County's interests are properly protected. The collateral assignments should also be approved by the Bank's board of directors or loan committee in order to perfect the collateral.

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

Client's Response:

*Carlton County will secure a new collateral agreement with Wells Fargo; in November, 2009, Carlton County released the then-existing collateral pledged by Wells Fargo as at that time, there was not a need for the collateralization. If/when the need arises for collateralization from Wells Fargo, Carlton County will secure the appropriate collateral agreement.*

08-3

Broker Certifications

The County is required by Minn. Stat. § 118A.04, subd. 9, to annually obtain a certification from each broker with which the County invests in which the broker acknowledges it has received the County's investment restrictions and agrees to handle the County's account in accordance with the restrictions.

For 2008, Carlton County did not obtain a broker certification from Wells Fargo Brokerage.

We recommend the County obtain broker certifications annually in accordance with Minn. Stat. § 118A.04, subd. 9.

Client's Response:

*With the takeover of Wachovia Securities by Wells Fargo, it is the understanding of Carlton County that this issue will be resolved by Wells Fargo.*

**PREVIOUSLY REPORTED ITEM RESOLVED**

**Safekeeping of Investments (07-2)**

In the prior audit, Carlton County held investments totaling \$5,088,438, with Wachovia Securities. This firm was not a primary reporting dealer nor had its principal executive offices in Minnesota; therefore, it was not a legal safekeeper under Minn. Stat. § 118A.06.

**Resolution**

In 2008, Wachovia Securities was acquired by Wells Fargo Brokerage, which is headquartered in Minnesota and, therefore, is eligible to safekeep investments under Minn. Stat. § 118A.06.

**B. MANAGEMENT PRACTICES**

**PREVIOUSLY REPORTED ITEMS NOT RESOLVED**

96-24 **Budgets**

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

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

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

All budget transfers or amendments that require Board approval by the written policy should be approved by the Board. Approval should be documented in a manner that allows the original Board-approved budget to be reconciled to the final amended budget used for reporting purposes. The minutes should include

the amounts of any transfers or budget changes in addition to the explanation for the change. All Board-approved budget amendments should be input in the general ledger system.

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

Client's Response:

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

96-26

Disaster Recovery Plan

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

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

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

Client's Response:

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



98-7

Contract Change Orders

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

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

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

Client's Response:

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

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REBECCA OTTO  
STATE AUDITOR

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

Board of County Commissioners  
Carlton County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carlton County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 14, 2010. We have issued an adverse opinion on the government-wide financial statements because Carlton County has neither reported capital assets nor other postemployment benefits (OPEB) obligations in the Statement of Net Assets and has neither reported the related depreciation nor the net OPEB obligation change in the Statement of Activities, as required by generally accepted accounting principles. Also, capital expenditures have not been eliminated from the Statement of Activities. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-11, 96-12, 96-18, 06-1 through 06-5, 07-1, and 08-1 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Carlton County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 96-11, 06-2, and 08-1 to be material weaknesses.

#### Compliance and Other Matters

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

## Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

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

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

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

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

January 14, 2010

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REBECCA OTTO  
STATE AUDITOR

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

Board of County Commissioners  
Carlton County

#### Compliance

We have audited the compliance of Carlton County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. Carlton County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Carlton County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Carlton County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

#### Internal Control Over Compliance

The management of Carlton County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Carlton County's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carlton County as of and for the year ended December 31, 2008, and have issued our report thereon dated January 14, 2010. We have issued an adverse opinion on the government-wide financial statements because Carlton County has neither reported capital assets nor other postemployment benefits (OPEB) obligation in the



Statement of Net Assets and has neither reported the related depreciation nor the net OPEB obligation change in the Statement of Activities, as required by generally accepted accounting principles. Also, capital expenditures have not been eliminated from the Statement of Activities.

Our audit was performed for the purpose of forming opinions on the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

January 14, 2010

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Schedule 8**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

| <b>Federal Grantor<br/>Pass-Through Agency<br/>Grant Program Title</b>  | <b>Pass-Through<br/>Grant Numbers</b>  | <b>Federal<br/>CFDA<br/>Number</b> | <b>Expenditures</b> |
|---|--|------------------------------------|---------------------|
| <b>U.S. Department of Agriculture</b>   |  |                                    |                     |
| Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board<br>Special Supplemental Nutrition Program for Women, Infants, and Children |  | 10.557                             | \$ 160,029          |
| Passed Through Minnesota Department of Human Services<br>State Administrative Matching Grants for the Supplemental Nutrition Assistance Program     |  | 10.561                             | 231,132             |
| <b>Total U.S. Department of Agriculture</b>   |  |                                    | <b>\$ 391,161</b>   |
| <b>U.S. Department of Commerce</b>  |  |                                    |                     |
| Passed Through Minnesota Department of Natural Resources<br>Coastal Zone Management Administrative Awards   |  | 11.419                             | <b>\$ 89,100</b>    |
| <b>U.S. Department of Housing and Urban Development</b>   |  |                                    |                     |
| Passed Through Minnesota Department of Employment and Economic Development<br>Community Development Block Grant                                     | CDAP-07-0071-0-FY08                    | 14.228                             | <b>\$ 54,119</b>    |
| <b>U.S. Department of Justice</b>   |  |                                    |                     |
| Passed Through Minnesota Department of Employment and Economic Development<br>Juvenile Accountability Block Grant                                   |  | 16.523                             | \$ 10,627           |
| Passed Through Minnesota Department of Public Safety<br>Bulletproof Vest Partnership Program  |  | 16.607                             | 1,080               |
| <b>Total U.S. Department of Justice</b>   |  |                                    | <b>\$ 11,707</b>    |
| <b>U.S. Department of Transportation</b>  |  |                                    |                     |
| Passed Through Minnesota Department of Transportation<br>Airport Improvement Program  | SP-0902-47<br>SP-0904-27<br>SP-0904-28 | 20.106                             | \$ 61,443           |
| Highway Planning and Construction   | SP-09-661-18                           | 20.205                             | * 246,932           |
| Passed Through Minnesota Department of Natural Resources<br>Recreational Trails Program   |  | 20.219                             | * 82,286            |

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Schedule 8  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

| <b>Federal Grantor<br/>Pass-Through Agency<br/>Grant Program Title</b>              | <b>Pass-Through<br/>Grant Numbers</b> | <b>Federal<br/>CFDA<br/>Number</b> | <b>Expenditures</b> |
|---|---------------------------------------|------------------------------------|---------------------|
| <b>U.S. Department of Transportation (Continued)</b>                                |                                       |                                    |                     |
| Passed Through Minnesota Department of Public Safety                                |                                       |                                    |                     |
| State and Community Highway Safety  |                                       | 20.600                             | 4,767               |
| Minimum Penalties for Repeat Offenders for Driving While Intoxicated                |                                       | 20.608                             | 4,639               |
| <b>Total U.S. Department of Transportation</b>                                      |                                       |                                    | <b>\$ 400,067</b>   |
| <b>U.S. Environmental Protection Agency</b>   |                                       |                                    |                     |
| Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board            |                                       |                                    |                     |
| State Indoor Radon Grants   |                                       | 66.032                             | <b>\$ 3,587</b>     |
| <b>U.S. Department of Health and Human Services</b>                                 |                                       |                                    |                     |
| Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board            |                                       |                                    |                     |
| Alzheimer's Disease Demonstration Grants to States                                  |                                       | 93.051                             | \$ 25,229           |
| Center for Disease Control and Prevention - Investigations and Technical Assistance |                                       | 93.283                             | 42,806              |
| Temporary Assistance for Needy Families (TANF)                                      |                                       | 93.558                             | 34,978              |
| Medical Assistance Program - Child and Teen Checkups                                |                                       | 93.778                             | 30,874              |
| Preventative Health and Health Services Block Grant                                 |                                       | 93.991                             | 200                 |
| Maternal and Child Health Services Block Grant                                      |                                       | 93.994                             | 37,852              |
| Passed Through Arrowhead Regional Development Commission                            |                                       |                                    |                     |
| National Family Caregiver Support, Title III, Part E                                |                                       | 93.052                             | 26,618              |
| Passed Through Minnesota Department of Human Services                               |                                       |                                    |                     |
| Promoting Safe and Stable Families  |                                       | 93.556                             | 29,636              |
| Temporary Assistance for Needy Families (TANF)                                      |                                       | 93.558                             | 370,597             |
| Child Support Enforcement   |                                       | 93.563                             | 984,107             |
| Refugee and Entrant Assistance Grant  |                                       | 93.566                             | 602                 |
| Child Care and Development Cluster  |                                       |                                    |                     |
| Child Care and Development Block Grant  |                                       | 93.575                             | 22,043              |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund      |                                       | 93.596                             | 6,172               |
| Foster Care Title IV-E  |                                       | 93.658                             | 501,071             |
| Social Services Block Grant   |                                       | 93.667                             | 288,563             |
| Chafee Foster Care Independence Program   |                                       | 93.674                             | 3,749               |
| Children's Health Insurance Program   |                                       | 93.767                             | 581                 |
| Medical Assistance Program  |                                       | 93.778                             | 877,776             |
| Block Grants for Community Mental Health Services                                   |                                       | 93.958                             | 14,707              |

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Schedule 8**  
***(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

| <b>Federal Grantor<br/>Pass-Through Agency<br/>Grant Program Title</b>  | <b>Pass-Through<br/>Grant Numbers</b> | <b>Federal<br/>CFDA<br/>Number</b> | <b>Expenditures</b> |
|---|---------------------------------------|------------------------------------|---------------------|
| <b>U.S. Department of Health and Human Services (Continued)</b>   |                                       |                                    |                     |
| Passed Through Minnesota Department of Health<br>Center for Disease Control and Prevention - Investigations<br>and Technical Assistance |                                       | 93.283                             | 1,000               |
| <b>Total U.S. Department of Health and Human Services</b>   |                                       |                                    | <b>\$ 3,299,161</b> |
| <b>U.S. Department of Homeland Security</b>   |                                       |                                    |                     |
| Passed Through Minnesota Department of Natural Resources<br>Boating Safety Financial Assistance   |                                       | 97.012                             | \$ 6,443            |
| Passed Through Minnesota Department of Public Safety<br>Emergency Management Performance Grants   |                                       | 97.042                             | 9,177               |
| Homeland Security Grant Program   |                                       | 97.067                             | 1,598               |
| <b>Total U.S. Department of Homeland Security</b>   |                                       |                                    | <b>\$ 17,218</b>    |
| <b>Total Federal Awards</b>   |                                       |                                    | <b>\$ 4,266,120</b> |

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Carlton County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. Expenditures on this schedule differ from federal revenues reported in the financial statements because of the modified accrual revenue recognition. In 2008, there were \$469,760 of receivables not recognized as revenue because period of availability criteria had not been met and \$352,727 of prior year deferred revenue which became available.
4. Pass-through grant numbers are presented for grants for which they have been assigned.
5. Carlton County did not pass any federal awards to subrecipients.