STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT
PREPARED AS A RESULT OF THE AUDIT OF

MARTIN COUNTY
FAIRMONT, MINNESOTA

YEAR ENDED DECEMBER 31, 2010

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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MARTIN COUNTY
FAIRMONT, MINNESOTA

Year Ended December 31, 2010

Management and Compliance Report

Audit Practice Division
Office of the State Auditor
State of Minnesota

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MARTIN COUNTY
FAIRMONT, MINNESOTA

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MARTIN COUNTY
FAIRMONT, MINNESOTA

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

I. SUMMARY OF AUDITOR'S RESULTS

A. Our report expresses unqualified opinions on the basic financial statements of Martin County.

B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Martin 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*." One of the significant deficiencies is a material weakness.

C. No instances of noncompliance material to the financial statements of Martin County were disclosed during the audit.

D. A significant deficiency relating to the audit of the major federal award program is reported in the "Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133." The significant deficiency is a material weakness.

E. The Auditor's Report on Compliance for the major federal award program for Martin 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 program is:

Capitalization Grants for Clean Water State Revolving Funds Program	CFDA #66.458

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

I. Martin 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

06-1 Audit Adjustments

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

During our audit, we proposed audit adjustments that were reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend that the County review internal controls currently in place and then design and implement procedures to improve internal controls over financial reporting which will detect misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

Client's Response:

In the past, we have had several agencies making our adjustments and in the future, staff will make these adjustments. The County will design and implement procedures for internal controls over financial reporting which will include review of the balances and supporting documentation to identify misstatements by qualified staff.

06-4 Capital Assets

For financial reporting and asset management purposes, the County is required to keep records of its capital assets, including infrastructure. The County continues to make improvements in capital asset record keeping through the implementation of the Integrated Financial System (IFS) Capital Asset Program. The program is maintained by the Auditor/Treasurer's Office. The program assists in tracking capital assets and calculating depreciation. However, further improvements need to be made to ensure that every County department's capital asset activity has been included in the system.

Capital asset policies utilized by the County in maintaining the capital asset system have not been formally approved. The County Board has not adopted a capital asset policy. The County has adopted policies regarding infrastructure and procedures for capitalization thresholds, useful lives, and depreciation; however, the County does not have policies and procedures in place to identify capital asset additions and deletions for entry in the capital asset system. County staff generally identify capital asset additions by reviewing capital expenditure accounts at year-end and determining which assets to capitalize. There is no system in place to identify asset disposals. Also, a physical inventory of capital assets has never been done.

We recommend the County Board establish a capital asset policy to define the County's accounting policies over capital assets. The Board should also establish policies and procedures to identify capital asset additions and deletions. Department heads should report capital asset additions and deletions at least annually. Also, we recommend a physical inventory of capital assets be performed periodically. This physical inventory can be rotated so that a portion of the capital assets is inventoried each year. Each asset should be counted at least once every five years. Some critical capital assets may need more frequent accounting. We also recommend that departments reconcile their capital asset listings to the records maintained by the Auditor/Treasurer.

Client's Response:

The County adopted a capital asset policy which addresses the additions and deletions of assets, on March of 2011. A physical inventory was done in 2001. The County will adopt a policy so that a portion of the capital assets are inventoried each year on a rotation basis. The Auditor/Treasurer's office has in the past and will continue in the future to send requests to each department to reconcile their capital asset listings.

ITEM ARISING THIS YEAR

10-1 Ditch Fund Special Assessments Receivable Records and Reporting

The County's books are adequately accounting for the needs of the County; however, adjustments to the County-prepared ditch special assessments receivable balances were necessary to present the financial statements according to generally accepted accounting principles. During our review of the County's special assessment receivable balances, we noted the following:

- amounts due to parcel owners for ditch damages, were not consistently applied against the reported special assessment receivable balances;

- road billings and ditch outlet fees were not consistently included in the reported special assessment receivable balances;

- unpaid amounts due for road billings that were not collected in the year due were not consistently carried forward into the next years' reported receivable balance; and

- some special assessment amounts levied had been omitted from the Board resolution which approved the levies.

We recommend that the County review the calculations for the reported ditch special assessments receivable to ensure that they are properly taking into consideration damages, road billings, and outlet fees due. The County should consider whether records for road billings and other portions of the approved ditch special assessments, which are not being tracked through the tax system, are sufficient to ensure that all amounts due are known, accurately reported, and monitored for timely collection.

We also recommend that the County implement review procedures to ensure that new ditch levies are complete and accurate when presented for Board approval.

Client's Response:

The County will review the ditch levies to be sure they are accurate when presented to the Board for approval. The worksheets that were being used for the audit were intended to be used for informational use for the Commissioners during the levy process. The County will add a column on the work sheets for money due on road billings to separate the dollars from the total assessments. Billings from other counties are not received until after the first of the next year.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

10-2 Identification of Federal Awards - Capitalization Grants for Clean Water State Revolving Funds Program - CFDA #66.458

The U.S. Environmental Protection Agency makes grants to states under its Capitalization Grants for Clean Water State Revolving Funds Program - CFDA #66.458. These grants provide a long-term source of funding for construction of wastewater treatment facilities and implementation of other water quality management activities. Such grants are deposited in a state's revolving loan fund and are used to provide loans and other types of financial assistance to eligible public water systems. The states are the direct recipients of the federal grants, which are then passed through to other entities in the form of loans.

Under an agreement with the Minnesota Public Facilities Authority (the PFA), Martin County was loaned funds from the PFA's Water Pollution Control Revolving Fund for the purpose of funding eligible project costs of improvements to Judicial Ditch 47 which would provide improvements to the City of Truman wastewater treatment system. The PFA disbursed the loaned funds to the County on a cost-reimbursement basis, and the County recorded the amounts received as loans issued in the County Ditch Special Revenue Fund. For the year ended December 31, 2009, the County expended $588,107 for eligible project expenditures. For the year ended December 31, 2010, the County expended $40,200 for eligible project expenditures.

Shortly after its receipt and examination of the County's 2009 audited financial statements, the PFA contacted the County to point out that the wastewater project expenditures were not identified as a federal award and included on the County's 2009 Schedule of Expenditures of Federal Awards. Consequently, these funds were not subject to audit for compliance with the compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*.

OMB Circular A-133 Subpart D § .400 indicates federal agencies and pass-through entities responsibilities (in this case, the PFA), which include identifying federal awards made by informing subrecipients (in this case, Martin County) of program CFDA title and number, award name and number, award year, name of the federal agency, all compliance requirements that are applicable to the program, if the award is ARRA, and if the award is R&D.

OMB Circular A-133 Subpart C § .300 indicates auditee responsibilities, which include identifying all federal awards received and expended and the federal programs under which they were received and preparing appropriate financial statements, including the Schedule of Expenditures of Federal Awards.

The PFA did not meet the pass-through entities responsibility in regard to the federal awards program for CFDA #66.458, resulting in the County not meeting the auditee responsibilities.

To mitigate the fact that the County's 2009 project expenditures had not been subject to audit for 2009 with the compliance requirements described in OMB Circular A-133 in the County's 2009 audit, we audited project expenditures incurred during both years 2009 and 2010 in the County's 2010 audit.

We recommend that the County develop policies and procedures addressing its responsibility to properly and, in a timely manner, identify all federal awards received and expended and the federal programs under which they were received. Furthermore, the County must prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards.

<u>Corrective Action Plan</u>:

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

Auditor/Treasurer Office

<u>Corrective Action Planned</u>:

The County will investigate and look into any future funding projects to see if there are any federal dollars attached. The County will prepare all appropriate financial statements needed for all federal awards.

<u>Anticipated Completion Date</u>:

September 19, 2011

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

05-3 Individual Ditch System Deficits

The County is authorized by Minn. Stat. § 103E.655, subd. 2, to make loans from ditch systems with a surplus or from the General Fund to a ditch system with insufficient cash to pay expenditures. This statute requires that the fund from which the funds were borrowed be repaid with interest. Allowing a ditch fund to maintain a deficit cash balance, in effect, constitutes an interest-free loan from other funds of the County and, as such, is in noncompliance with Minnesota Law.

At December 31, 2010, 40 ditch systems had negative cash balances totaling $396,522, and 14 ditch systems had negative fund balances totaling $121,060.

We recommend that the County eliminate cash and fund balance deficits in individual ditches by borrowing from an eligible fund with a surplus cash balance, as permitted by statute, or by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the creation of a repair fund to provide for the repair and maintenance costs of a ditch system.

Client’s Response:

As in the past, the County Commissioners levy dollars for every system that has deficit balances. The Commissioners attempt to levy enough dollars to systems that they know of upcoming repairs, but there are repairs that have cost overruns or unplanned weather events that damage systems. The Commissioners have discussed this issue and chosen to not move funds because they levy the following year to positive cash in the fund to complete projected work.

PREVIOUSLY REPORTED ITEM RESOLVED

Mutual Fund Investment (09-1)

The County did not comply with Minnesota statutes regarding the proper investment of County funds.

Resolution

The County reinvested the funds that were previously invested in an unrated money market fund into certificates of deposit in compliance with state law.

B. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for Martin County for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

Fund Balance Reporting

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

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).

- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.

- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.

- *Unassigned* - spendable amounts not contained in the other classifications.

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

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

<u>Governmental Fund Type Definitions</u>

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in the new standard. The new definition for a special revenue fund could have significant impact on the County's current fund classifications.

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

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

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

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

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

Board of County Commissioners
Martin County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Martin County as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the Schedule of Findings and Questioned Costs we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 06-1 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 06-4 and 10-1 to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because the County has no tax increment financing.

The results of our tests indicate that, for the items tested, Martin County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 05-3.

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to the County, and we are reporting it for that purpose.

Martin County's written responses to the internal control and legal compliance 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 Martin 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 23, 2011

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

Board of County Commissioners
Martin County

Compliance

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

Internal Control Over Compliance

Management of Martin County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 10-2 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Martin County as of and for the year ended December 31, 2010, and have issued our report thereon dated September 23, 2011. Our audit was performed for the purpose of forming opinions on Martin County's financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) 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. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The SEFA has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 23, 2011

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MARTIN COUNTY
FAIRMONT, MINNESOTA

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Human Services of Faribault and Martin Counties		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	**$ 9,978**
U.S. Department of Commerce		
Passed Through Blue Earth County		
Public Safety Interoperable Communications Grant Program	11.555	**$ 34,707**
U.S. Department of Justice		
Direct		
Recovery Act - Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program - ARRA	16.810	**$ 117,808**
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Formula Grants for Other Than Urbanized Areas	20.509	**$ 133,901**
U.S. Environmental Protection Agency		
Passed Through Minnesota Public Facilities Authority		
Capitalization Grants for Clean Water State Revolving Funds	66.458	**$ 628,307**
U.S. Department of Health and Human Services		
Passed Through Human Services of Faribault and Martin Counties		
Child Support Enforcement	93.563	$ 8,173
Refugee and Entrant Assistance - State Administered Programs	93.566	13
Foster Care - Title IV-E	93.658	1,009
Children's Health Insurance Program	93.767	8
Medical Assistance Program	93.778	28,767
Total U.S. Department of Health and Human Services		**$ 37,970**
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	$ 12,824
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	39,880
Total U.S. Department of Homeland Security		**$ 52,704**
Total Federal Awards		**$ 1,015,375**

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

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MARTIN COUNTY
FAIRMONT, MINNESOTA

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

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Martin County under programs of the federal government for the year ended December 31, 2010. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Martin County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Martin County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$	387,068
Funds reported as debt proceeds in 2009 and 2010 Capitalization Grants for Clean Water State Revolving Funds		628,307
Expenditures Per Schedule of Expenditures of Federal Awards	$	1,015,375

5. Subrecipients

During 2010, the County did not pass any federal money to subrecipients.

6. American Recovery and Reinvestment Act

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