

# 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, 2012

## **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, 2012**



**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, 2012**

			<u>Term Expires</u>
<b>Elected</b>			
<b>Commissioners</b>			
Board Chair	Thomas Proulx	District 3	January 2013
Board Member	Marv Bodie	District 2	January 2015
Board Member	Dick Brenner	District 1	January 2013
Board Member	Robert Olean	District 4	January 2015
Board Member	Ted Pihlman	District 5	January 2013
Attorney	Thomas H. Pertler		January 2015
Auditor/Treasurer	Paul Gassert		January 2015
Coroner	Ricard Puumala, M.D.		January 2015
Sheriff	Kelly Lake		January 2015
<b>Appointed</b>			
Assessor	Marci Moreland		January 2013
Recorder	Kristine Basilici		January 2015
Registrar of Titles	Kristine Basilici		January 2015
Highway Engineer	Wayne Olson		May 2013
Veteran Services Officer	Duane Brownie		January 2015
Surveyor	William Hayden		December 2013
County Coordinator	Dennis Genereau		Ongoing

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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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carlton County, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Basis for Adverse Opinion on Governmental Activities***

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

Also, as discussed in Note 1.D.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 an expense for the current period change in the net OPEB obligation. Accounting principles generally accepted in the United States of America require that OPEB obligations, which arise from an exchange of salaries and benefits for employee 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 position, and change the expenses of the governmental activities. The amount by which this departure affects the liabilities, net position, and expenses of the governmental activities is not reasonably determinable.

***Opinions***

In our opinion, because of the effects of the matters described in the "Basis for Adverse Opinion on Governmental Activities" section above, the financial statements do not present fairly, in all material respects, the financial position of the governmental activities of Carlton County as of December 31, 2012, and the changes in financial position thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Carlton County as of December 31, 2012, 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.

***Other Matters***

***Required Supplementary Information***

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

***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Carlton County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2014, on our consideration of Carlton County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Carlton County's internal control over financial reporting and compliance.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

February 14, 2014

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012  
(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, 2012. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

**FINANCIAL HIGHLIGHTS**

- Governmental activities' total net position are \$17,923,796, of which \$12,598,647 is restricted for specific purposes.
- Carlton County's governmental activities' net position increased by \$3,629,923 for the year ended December 31, 2012.
- The net cost of governmental activities was \$20,825,306 for the current fiscal year. The net cost was funded by general revenues totaling \$24,455,229.
- Governmental funds' fund balances increased by \$219,471.
- Carlton County has not established capital asset records or recorded the related depreciation as required by Governmental Accounting Standards Board (GASB) Statement 34. Carlton County also has not determined the net other postemployment benefits liability as required by GASB Statement 45.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

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

### **Fund Financial Statements**

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

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

### Reporting the County's Fiduciary Responsibilities

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

### THE COUNTY AS A WHOLE

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

**Table 1**  
**Net Position**  
**(in Thousands)**

	<u>2012</u>	<u>2011</u>
Assets	<u>\$ 43,143</u>	<u>\$ 35,500</u>
Long-term debt outstanding	\$ 18,761	\$ 17,821
Other liabilities	<u>6,458</u>	<u>3,385</u>
Total Liabilities	<u>\$ 25,219</u>	<u>\$ 21,206</u>
Net Assets		
Restricted	\$ 12,599	\$ 8,541
Unrestricted	<u>5,325</u>	<u>5,753</u>
Total Net Position	<u>\$ 17,924</u>	<u>\$ 14,294</u>

**Table 2**  
**Changes in Net Position**  
**(in Thousands)**

	<u>2012</u>	<u>2011</u>
<b>Revenues</b>		
Program revenues		
Fees, fines, charges, and other	\$ 5,686	\$ 5,804
Operating grants and contributions	15,863	13,844
Capital grants and contributions	3,963	2,690
General revenues		
Property taxes	20,764	18,950
Other taxes	402	368
Grants and contributions	2,956	3,296
Other general revenues	333	184
	<u>\$ 49,967</u>	<u>\$ 45,136</u>
<b>Expenses</b>		
Program expenses		
General government	\$ 6,500	\$ 6,452
Public safety	8,602	7,060
Culture and recreation	323	474
Highways and streets	10,267	9,711
Human services	13,161	19,182
Health	2,694	2,525
Sanitation	1,772	1,306
Conservation of natural resources	1,098	950
Economic development	1,180	914
Interest	740	713
	<u>\$ 46,337</u>	<u>\$ 49,287</u>
Increase (Decrease) in Net Position	\$ 3,630	\$ (4,151)
Net Position, January 1	<u>14,294</u>	<u>18,445</u>
Net Position, December 31	<u>\$ 17,924</u>	<u>\$ 14,294</u>

### **Governmental Activities**

The cost of all governmental activities this year was \$46,336,965. However, as shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through County taxes was only \$20,763,669, because some of the cost was paid by those who directly benefited from the programs (\$5,685,757) or by other governments and organizations that subsidized certain programs with grants and contributions (\$19,825,902).

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	
	2012	2011	2012	2011
General government	\$ 6,500	\$ 6,452	\$ 4,940	\$ 4,685
Public safety	8,602	7,060	6,662	6,018
Highways and streets	10,267	9,711	973	1,913
Human services	13,161	19,182	6,155	12,049
Health	2,694	2,525	90	741
All others	5,113	4,357	2,005	1,543
<b>Totals</b>	<b>\$ 46,337</b>	<b>\$ 49,287</b>	<b>\$ 20,825</b>	<b>\$ 26,949</b>

## THE COUNTY’S FUNDS

As the County completed the year, its governmental funds reported a combined fund balance of \$26,796,745, which is more than last year’s total of \$26,577,274. Included in this year’s total fund balance is a surplus of \$14,664,834 in the County’s General Fund. The overall increase in the governmental funds was primarily due to an increase in restricted funds in the Debt Service Fund.

### General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) for the County’s General Fund exceeded the final budget by \$1,469,254. The largest variances were in public safety and sanitation.

On the other hand, resources available for appropriation exceeded the final budget for the County’s General Fund by \$2,024,762. Collections were greater than expected in intergovernmental revenues, charges for services, and miscellaneous revenues, and less than expected for investment income and licenses and permits.

Fund balance was anticipated to increase by \$122,279. Actual fund balance increased by \$563,026 due to net excess revenues.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2012, 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 \$15,865,000 outstanding in general obligation bonds backed by the County, versus \$15,070,000 last year.

The County did issue bonds in 2012. Principal and interest payments on all bonds and notes will not exceed the amount allowed by Minn. Stat. § 373.40.

Other obligations include 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 2013 budget and tax levy:

- anticipated increase of \$150,000 for insurance costs,
- anticipated reduction of \$50,000 in investment income,
- increase of \$100,000 in outside boarding costs of prisoners,
- increase of \$250,000 for various new staff,
- increase of \$300,000 for Community Corrections agreement,
- increase of \$200,000 for scheduled debt service requirements,
- anticipated cost of \$100,000 for building and structure repairs,
- increase of \$150,000 in costs for Public Health & Human Services to maintain current level of service, and
- increase of 6.31 percent for property tax levies in 2013.



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

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

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

***EXHIBIT 1***

**STATEMENT OF NET POSITION  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2012**

**Assets**

Cash and pooled investments	\$ 26,464,148
Cash with escrow agent	1,924,038
Receivables - net	12,627,088
Inventories	1,076,577
Prepaid items	897,465
Deferred charges	153,740
	<hr/>
<b>Total Assets</b>	<b>\$ 43,143,056</b>

**Liabilities**

Accounts payable and other current liabilities	\$ 3,162,344
Accrued interest payable	235,565
Unearned revenue	372,441
Matured bonds payable	2,635,000
Matured interest payable	53,097
Long-term liabilities	
Due within one year	473,959
Due in more than one year	18,286,854
	<hr/>
<b>Total Liabilities</b>	<b>\$ 25,219,260</b>

**Net Position**

Restricted for	
General government	\$ 554,360
Public safety	46,392
Highways and streets	5,080,750
Sanitation	21,844
Conservation of natural resources	378,215
Economic development	2,845,898
Capital projects	347,041
Debt service	3,324,147
Unrestricted	5,325,149
	<hr/>
<b>Total Net Position</b>	<b>\$ 17,923,796</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*EXHIBIT 2*

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
<b>Functions/Programs</b>					
<b>Governmental activities</b>					
General government	\$ 6,500,121	\$ 1,056,137	\$ 504,415	\$ -	\$ (4,939,569)
Public safety	8,602,099	191,395	1,749,153	-	(6,661,551)
Highways and streets	10,266,684	972,667	4,717,043	3,603,880	(973,094)
Sanitation	1,772,300	830,952	594,349	-	(346,999)
Human services	13,160,763	644,592	6,361,503	-	(6,154,668)
Health	2,693,815	968,811	1,634,584	-	(90,420)
Culture and recreation	322,871	-	-	-	(322,871)
Conservation of natural resources	1,097,630	757,344	11,553	-	(328,733)
Economic development	1,180,225	263,859	290,389	359,033	(266,944)
Interest	740,457	-	-	-	(740,457)
<b>Total Governmental Activities</b>	<b>\$ 46,336,965</b>	<b>\$ 5,685,757</b>	<b>\$ 15,862,989</b>	<b>\$ 3,962,913</b>	<b>\$ (20,825,306)</b>
<b>General Revenues</b>					
Property taxes				\$ 20,763,669	
Mortgage registry and deed tax				27,438	
Payments in lieu of tax				374,487	
Grants and contributions not restricted to specific programs				2,956,178	
Unrestricted investment earnings				48,692	
Miscellaneous				284,765	
<b>Total general revenues</b>				<b>\$ 24,455,229</b>	
<b>Change in net position</b>				<b>\$ 3,629,923</b>	
<b>Net Position - Beginning</b>				<b>14,293,873</b>	
<b>Net Position - Ending</b>				<b>\$ 17,923,796</b>	



**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

	<b>General</b>	<b>Road and Bridge</b>
<u><b>Assets</b></u>		
Cash and pooled investments	\$ 11,329,603	\$ 4,663,471
Petty cash and change funds	1,600	-
Cash with escrow agent	-	-
Taxes receivable		
Delinquent	607,325	157,316
Special assessments receivable		
Delinquent	45,800	-
Accounts receivable	72,309	7,218
Accrued interest receivable	24,489	-
Due from other funds	99,935	41,387
Due from other governments	471,099	5,833,485
Inventories	-	1,076,577
Prepaid items	885,910	-
Loans receivable	2,566,321	-
	<b>\$ 16,104,391</b>	<b>\$ 11,779,454</b>
<b>Total Assets</b>	<b>\$ 16,104,391</b>	<b>\$ 11,779,454</b>

**EXHIBIT 3**

<u>Human Services</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 5,918,797	\$ 4,085,522	\$ 461,205	\$ 26,458,598
3,950	-	-	5,550
-	1,924,038	-	1,924,038
322,538	69,998	-	1,157,177
-	-	-	45,800
105,304	-	622,782	807,613
-	-	-	24,489
-	-	-	141,322
1,584,212	-	136,892	8,025,688
-	-	-	1,076,577
11,555	-	-	897,465
-	-	-	2,566,321
<u>\$ 7,946,356</u>	<u>\$ 6,079,558</u>	<u>\$ 1,220,879</u>	<u>\$ 43,130,638</u>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Liabilities and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 194,940	\$ 319,920
Salaries payable	341,704	103,534
Contracts payable	46,182	692,892
Matured bonds payable	-	-
Matured interest payable	-	-
Due to other funds	40,226	-
Due to other governments	123,816	155,040
Deferred revenue - unavailable	649,314	8,408,982
Deferred revenue - unearned	43,375	225,038
	<b>\$ 1,439,557</b>	<b>\$ 9,905,406</b>
<b>Fund Balances</b>		
Nonspendable		
Inventories	\$ -	\$ 1,076,577
Prepaid items	885,910	-
Long-term loans	2,566,320	-
Restricted for		
Capital projects	-	-
Debt service	-	-
Law library	64,300	-
Recorder's technology equipment	182,011	-
Recorder's compliance fund	201,914	-
Missing heirs	26,080	-
Attorney's forfeiture	80,054	-
Sheriff's contingencies	3,027	-
Sheriff's gun permits	41,648	-
Sheriff's forfeited property	1,717	-
Timber development	378,215	-
Economic development	301,422	-
Highways and streets	-	634,156
Town roads	-	31,361
Assigned to		
Highways and streets	-	131,954
Human services	-	-
Forfeited tax	-	-
Unassigned	9,932,216	-
	<b>\$ 14,664,834</b>	<b>\$ 1,874,048</b>
<b>Total Fund Balances</b>	<b>\$ 14,664,834</b>	<b>\$ 1,874,048</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 16,104,391</b>	<b>\$ 11,779,454</b>

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

<u>Human Services</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 504,904	\$ 3,749	\$ 128,346	\$ 1,151,859
309,964	-	8,670	763,872
-	-	-	739,074
-	2,635,000	-	2,635,000
-	53,097	-	53,097
-	-	101,096	141,322
213,871	-	14,812	507,539
299,659	63,565	548,169	9,969,689
104,028	-	-	372,441
<u>\$ 1,432,426</u>	<u>\$ 2,755,411</u>	<u>\$ 801,093</u>	<u>\$ 16,333,893</u>
\$ -	\$ -	\$ -	\$ 1,076,577
-	-	-	885,910
-	-	-	2,566,320
-	-	347,041	347,041
-	3,324,147	-	3,324,147
-	-	-	64,300
-	-	-	182,011
-	-	-	201,914
-	-	-	26,080
-	-	-	80,054
-	-	-	3,027
-	-	-	41,648
-	-	-	1,717
-	-	-	378,215
-	-	-	301,422
-	-	-	634,156
-	-	-	31,361
-	-	-	131,954
6,513,930	-	-	6,513,930
-	-	72,745	72,745
-	-	-	9,932,216
<u>\$ 6,513,930</u>	<u>\$ 3,324,147</u>	<u>\$ 419,786</u>	<u>\$ 26,796,745</u>
<u>\$ 7,946,356</u>	<u>\$ 6,079,558</u>	<u>\$ 1,220,879</u>	<u>\$ 43,130,638</u>

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2012**

<b>Fund balances - total governmental funds (Exhibit 3)</b>		<b>\$ 26,796,745</b>
Amounts reported for governmental activities in the statement of net position are different because:		
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		9,969,689
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	\$ (15,865,000)	
Bond discount	56,239	
Loans payable	(19,043)	
Accrued interest payable	(235,565)	
Compensated absences	(2,933,009)	
Deferred debt issuance charges	153,740	
	(18,842,638)	(18,842,638)
<b>Net Position of Governmental Activities (Exhibit 1)</b>		<b>\$ 17,923,796</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>General</b>	<b>Road and Bridge</b>
<b>Revenues</b>		
Taxes	\$ 10,753,111	\$ 2,720,784
Special assessments	514,504	-
Licenses and permits	112,108	-
Intergovernmental	4,290,562	4,740,348
Charges for services	2,070,984	456,746
Fines and forfeits	49,336	-
Gifts and contributions	26,253	-
Investment income	46,192	2,500
Miscellaneous	704,177	529,224
	<b>\$ 18,567,227</b>	<b>\$ 8,449,602</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 6,468,440	\$ -
Public safety	7,543,179	-
Highways and streets	-	10,572,386
Sanitation	1,772,300	-
Human services	-	-
Health	-	-
Culture and recreation	322,871	-
Conservation of natural resources	691,112	-
Economic development	1,180,225	-
<b>Capital outlay</b>	-	-
<b>Debt service</b>		
Principal	31,313	-
Interest	-	-
Administrative charge	-	-
Bond issuance costs	-	-
	<b>\$ 18,009,440</b>	<b>\$ 10,572,386</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 557,787</b>	<b>\$ (2,122,784)</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ 14,936	\$ -
Transfers out	(9,697)	-
Refunding bonds issued	-	-
	<b>\$ 5,239</b>	<b>\$ -</b>
<b>Net Change in Fund Balance</b>	<b>\$ 563,026</b>	<b>\$ (2,122,784)</b>
<b>Fund Balance - January 1</b>	<b>14,101,808</b>	<b>3,658,595</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>338,237</b>
	<b>\$ 14,664,834</b>	<b>\$ 1,874,048</b>
<b>Fund Balance - December 31</b>	<b>\$ 14,664,834</b>	<b>\$ 1,874,048</b>

**EXHIBIT 5**

<u>Human Services</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 5,982,084	\$ 1,310,555	\$ 63,231	\$ 20,829,765
-	-	-	514,504
-	-	-	112,108
8,722,702	232,462	346,036	18,332,110
213,457	-	-	2,741,187
-	-	-	49,336
219	-	-	26,472
-	-	-	48,692
<u>1,397,221</u>	<u>-</u>	<u>405,080</u>	<u>3,035,702</u>
<b>\$ 16,315,683</b>	<b>\$ 1,543,017</b>	<b>\$ 814,347</b>	<b>\$ 45,689,876</b>
\$ -	\$ -	\$ 5,600	\$ 6,474,040
-	-	-	7,543,179
-	-	-	10,572,386
-	-	-	1,772,300
12,960,772	-	-	12,960,772
2,693,815	-	-	2,693,815
-	-	-	322,871
-	-	400,335	1,091,447
-	-	-	1,180,225
-	-	1,152,034	1,152,034
-	3,215,000	-	3,246,313
-	735,310	-	735,310
-	3,612	-	3,612
-	70,338	-	70,338
<u>\$ 15,654,587</u>	<u>\$ 4,024,260</u>	<u>\$ 1,557,969</u>	<u>\$ 49,818,642</u>
<u>\$ 661,096</u>	<u>\$ (2,481,243)</u>	<u>\$ (743,622)</u>	<u>\$ (4,128,766)</u>
\$ 9,697	\$ -	\$ 383,620	\$ 408,253
-	(383,620)	(14,936)	(408,253)
-	4,010,000	-	4,010,000
<u>\$ 9,697</u>	<u>\$ 3,626,380</u>	<u>\$ 368,684</u>	<u>\$ 4,010,000</u>
\$ 670,793	\$ 1,145,137	\$ (374,938)	\$ (118,766)
5,843,137	2,179,010	794,724	26,577,274
-	-	-	338,237
<u>\$ 6,513,930</u>	<u>\$ 3,324,147</u>	<u>\$ 419,786</u>	<u>\$ 26,796,745</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, 2012**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ (118,766)**

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	\$ 9,969,689	
Deferred revenue - January 1	(5,692,677)	4,277,012

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Bonds issued	\$ (4,010,000)	
Issuance costs	70,338	(3,939,662)

Principal repayments		
General obligation bonds	\$ 3,215,000	
Loans payable	31,313	3,246,313

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	\$ 50,067	
Change in compensated absences	(171,677)	
Amortization of deferred issuance charges	(47,425)	
Amortization of bond discounts	(4,176)	
Change in inventories	338,237	165,026

**Change in Net Position of Governmental Activities (Exhibit 2) \$ 3,629,923**

**FIDUCIARY FUNDS**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT 7**

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2012**

	<u>Agency</u>
<b><u>Assets</u></b>	
Cash and pooled investments	<u>\$ 1,229,197</u>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 84,331
Salaries payable	3,097
Due to other governments	<u>1,141,769</u>
<b>Total Liabilities</b>	<b><u>\$ 1,229,197</u></b>

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012**

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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, 2012. 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 position and the statement of activities) display information about the primary government.

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

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

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues. The County has not recorded depreciation expense or eliminated the related capital expenditures or recognized any change in net OPEB obligations in the statement of activities as required by generally accepted accounting principles, as discussed in Notes 1.D.4. and 1.D.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 accounted for in another fund.
- The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.
- The Human Services Special Revenue Fund is used to account for economic assistance and community social services programs.
- The Debt Service Fund is used to account for the accumulation of resources for and the payment of principal, interest, and related costs of general long-term debt.

Additionally, the County reports the following fiduciary fund type:

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at fair value at December 31, 2012, 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 2012 were \$48,692.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments (Continued)

Carlton County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The 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). The investment in the pool is measured at the net asset value per share provided by the pool. Information relating to the MAGIC Fund can be obtained from Client Services Group, Minnesota Association of Governments Investing for Counties, c/o PFM Asset Management LLC, P. O. Box 11760, Harrisburg, Pennsylvania 17108.

2. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” All receivables are shown net of an allowance for uncollectibles.

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

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

3. Inventories and Prepaid Items

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

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

4. Capital Assets

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

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position 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 and governmental activities also defer revenue recognition in connection with resources that have been received, but not yet earned.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column of the statement of net position. 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 Position 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 position. The change in the net OPEB obligation has not been reported in the government-wide statement of activities. These are departures from generally accepted accounting principles.

8. Classification of Net Position

Net position in government-wide statements is classified in the following categories:

- Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position - the amount of net position that does not meet the definition of restricted.

9. Fund Equity

Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

- Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.
- Restricted - amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.



**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

9. Fund Equity (Continued)

- Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of actions (ordinance or resolution) it employed to previously commit these amounts.
- Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board, and the County Auditor/Treasurer who has been delegated that authority by Board resolution.
- Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

10. Use of Estimates

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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, 2012:

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 16,540,186	\$ 18,009,440	\$ 1,469,254
Special Revenue Funds			
Human Services	15,139,297	15,654,587	515,290
Forfeited Tax	340,864	405,935	65,071
Debt Service Fund	1,347,433	4,024,260	2,676,827

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 26,464,148
Cash with escrow agent	1,924,038
Statement of fiduciary net position	
Cash and pooled investments	<u>1,229,197</u>
Total Cash and Investments	<u>\$ 29,617,383</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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. As of December 31, 2012, the County’s deposits were not exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy on custodial credit risk for investments. As of December 31, 2012, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

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

The following table represents the County's deposit and investment balances at December 31, 2012, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Federal Home Loan Mortgage Corporation Note	N/A	N/A	<5%	02/01/2028	\$ 3,331
Federal National Mortgage Association	Aaa/AA+	Moody's/S&P	<5%	03/01/2017	\$ 100,015
Federal National Mortgage Association	Aaa/AA+	Moody's/S&P	<5%	10/25/2017	99,992
Federal National Mortgage Association	Aaa/AA+	Moody's/S&P	<5%	11/27/2017	199,156
Federal National Mortgage Association	N/A	N/A	<5%	10/01/2025	3,765
Total Federal National Mortgage Association					\$ 402,928

**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	
Negotiable certificates of deposit					
Ally Bank	N/A	N/A	<5%	05/09/2013	\$ 245,331
American Express Centurion Bank	N/A	N/A	<5%	10/05/2015	244,721
Apple Bank for Savings	N/A	N/A	<5%	02/19/2013	245,015
Bank of India New York	N/A	N/A	<5%	03/06/2013	244,979
Bank of Lexington	N/A	N/A	<5%	10/18/2013	244,486
Beal Bank USA	N/A	N/A	<5%	06/12/2013	245,179
Blue Hills Bank	N/A	N/A	<5%	04/19/2013	244,859
BMW Bank	N/A	N/A	<5%	09/21/2015	245,102
Citizens State Bank	N/A	N/A	<5%	10/27/2014	245,140
Discover Bank	N/A	N/A	<5%	06/13/2013	245,019
Enerbank USA	N/A	N/A	<5%	05/28/2013	244,886
Everbank Jacksonville	N/A	N/A	<5%	03/14/2014	244,653
First Niagara Bank	N/A	N/A	<5%	03/07/2013	244,958
First State Bank Mendota	N/A	N/A	<5%	05/17/2013	244,810
GE Cap Bank	N/A	N/A	<5%	08/24/2016	244,744
GE Capital Retail Bank	N/A	N/A	<5%	03/08/2013	244,978
Glacier Bank	N/A	N/A	<5%	02/19/2013	244,938
Goldman Sachs Bank	N/A	N/A	<5%	08/31/2015	245,429
Key Bank National Association	N/A	N/A	<5%	04/24/2014	244,478
Marlin Business Bank	N/A	N/A	<5%	01/17/2013	245,000
Merrick Bank South	N/A	N/A	<5%	01/18/2013	244,995
Mizuho Corporate Bank	N/A	N/A	<5%	03/13/2013	245,054
Pacific Continental Bank	N/A	N/A	<5%	04/19/2013	244,859
Sallie May Bank	N/A	N/A	<5%	08/29/2014	245,148
Sovereign Bank	N/A	N/A	<5%	02/07/2013	245,000
State Bank India	N/A	N/A	<5%	01/09/2013	245,000
Total negotiable certificates of deposit					\$ 6,368,761
Investment pools/mutual funds					
MAGIC Fund	N/A	N/A	68.3%	N/A	\$ 14,617,939
Total investments					\$ 21,392,959
Deposits					6,294,836
Cash with escrow agent					1,924,038
Petty cash					5,550
Total Cash and Investments					\$ 29,617,383

N/A - Not Applicable

S&P - Standard & Poor's

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2012, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 1,157,177	\$ -
Special assessments	45,800	-
Due from other governments	8,025,688	-
Accounts	807,613	-
Interest	24,489	-
Loans receivable	2,566,321	2,332,704
Total Governmental Activities	\$ 12,627,088	\$ 2,332,704

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2012, is as follows:

Receivable Fund	Payable Fund	Amount	Purpose
General	Forfeited Tax	\$ 99,935	Forfeited tax apportionment and payment of fees
Road and Bridge	General	\$ 40,226	Reimburse supplies and services
	Forfeited Tax	1,161	Reimburse supplies and services
Total due to Road and Bridge Fund		\$ 41,387	
Total Due To/From Other Funds		\$ 141,322	

**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, 2012, consisted of the following:

Transfers to General Fund from Forfeited Tax Fund	\$ 14,936	Distribute net proceeds
Transfers to Human Services Fund from General Fund	9,697	Collection of Title IV-D funds
Transfers to Capital Projects Fund from Debt Service Fund	<u>383,620</u>	Eliminate cash deficit
Total Interfund Transfers	<u>\$ 408,253</u>	

C. Liabilities

1. Payables

Payables at December 31, 2012, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 1,151,859
Salaries	763,872
Contracts	739,074
Due to other governments	<u>507,539</u>
Total Payables	<u>\$ 3,162,344</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.

As of year-end, the County has 46 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 2012, the County expended \$538,194 for these benefits.



**CARLTON COUNTY  
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Bonds Payable

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

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
2006 G.O. Capital Improvement Bonds	2021	\$130,000 - \$305,000	3.45 - 4.00	\$ 3,000,000	\$ 2,285,000
2010A Taxable G.O. Capital Improvement Bonds (Build America Bonds)	2025	\$180,000 - \$920,000	1.25 - 5.25	5,000,000	4,820,000
2010B Taxable G.O. Capital Improvement Bonds (Recovery Zone Economic Development Bonds)	2030	\$900,000 - \$1,005,000	5.25 - 5.75	4,750,000	4,750,000
2012A G.O. Capital Improvement Refunding Bonds	2021	\$250,000 - \$560,000	0.40 - 1.50	4,010,000	4,010,000
Total				<u>\$ 16,760,000</u>	\$ 15,865,000
Less: unamortized discount					<u>(56,239)</u>
Total General Obligation Bonds, Net					<u>\$ 15,808,761</u>

Loans Payable

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

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
2003 tee hangar loan - Cloquet	2013	\$1,834/month	0.00	\$ 220,082	\$ 12,840
2003 tee hangar loan - Moose Lake	2013	\$775/month	0.00	93,050	6,203
Total Loans Payable				<u>\$ 313,132</u>	<u>\$ 19,043</u>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2012, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		Loans	
	Principal	Interest	Principal	Interest
2013	\$ 335,000	574,287	\$ 19,043	\$ -
2014	2,580,000	540,250	-	-
2015	720,000	501,847	-	-
2016	735,000	493,340	-	-
2017	730,000	483,046	-	-
2018 - 2022	3,635,000	2,190,677	-	-
2023 - 2027	4,200,000	1,417,682	-	-
2028 - 2030	2,930,000	252,861	-	-
Total	<u>\$ 15,865,000</u>	<u>\$ 6,453,990</u>	<u>\$ 19,043</u>	<u>\$ -</u>

Debt Refunding

On November 7, 2012, the County issued \$4,010,000 of General Obligation Capital Improvement Refunding Bonds, Series 2012, with an average interest rate of 1.07 percent to refund \$2,440,000 of the General Obligation Capital Improvement Plan Bonds, Series 2003, with an average interest rate of 3.98 percent and \$1,095,000 of the General Obligation Capital Improvement Bonds, Series 2006, with an average interest rate of 3.88 percent. The County recorded a current liability for the balance of the Series 2003 Bonds as of December 31, 2012, and considers these bonds fully refunded as of that date. The actual cash payment occurred on January 11, 2013. The refunding of the Series 2006 bonds will be conducted by means of a crossover refunding mechanism. The County will continue to make principal and interest payments on the Series 2006 bonds through the call date of February 1, 2014. The County refunded the Series 2003 and 2006 Bonds to reduce its total debt service payments by \$624,753 and to obtain an economic gain (difference between the present values of the debt service payment on the old and new debt) of \$544,479.

**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, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 15,070,000	\$ 4,010,000	\$ 3,215,000	\$ 15,865,000	\$ 335,000
Bond discount	(60,415)	-	(4,176)	(56,239)	-
Loans payable	50,356	-	31,313	19,043	19,043
Compensated absences	2,761,333	171,676	-	2,933,009	119,916
Governmental Activities					
Long-Term Liabilities	\$ 17,821,274	\$ 4,181,676	\$ 3,242,137	\$ 18,760,813	\$ 473,959

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 General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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 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. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

For all General 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 General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund, 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. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2012:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
General Employees Retirement Fund	\$ 939,725	\$ 941,831	\$ 909,584
Public Employees Police and Fire Fund	222,176	218,708	212,556
Public Employees Correctional Fund	62,983	62,412	61,991

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

B. Defined Contribution Plan

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. Pension Plans

B. Defined Contribution Plan (Continued)

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.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2012, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 3,785	\$ 3,785
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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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5. Postemployment Health Care

A. MSRS Health Care Savings Plan (Continued)

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.

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.



**CARLTON COUNTY  
CARLTON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

A. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$460,000 per claim in 2012 and \$470,000 per claim in 2013. 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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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

B. Contingent Liabilities

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

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

C. Conduit Debt

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, 2012, the outstanding principal balance was \$8,940,000.

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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Arrowhead Regional Corrections (Continued)

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.

Arrowhead Regional Corrections is financed through state grants and contributions from the participating counties. During 2012, County contributions were in the following proportion:

	<u>Percent (%)</u>
Carlton County	8.63
Cook County	1.63
Koochiching County	1.45
Lake County	2.44
St. Louis County	<u>85.85</u>
Total	<u><u>100.00%</u></u>

Below is a summary of the financial information from Arrowhead Regional Corrections' government-wide financial statements as of December 31, 2012:

Total Assets	\$ 12,206,883
Total Liabilities	5,982,417
Total Net Position	6,224,466
Total Revenues	21,983,212
Total Expenses	21,862,294
Change in Net Position	120,918

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Arrowhead Regional Corrections (Continued)

Carlton County provided \$1,176,688 in funding during 2012. Separate financial information can be obtained from:

Arrowhead Regional Corrections  
211 West Second Street, Suite 450  
Duluth, Minnesota 55802

Carlton County Children and Family Service Collaborative

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

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, 2012, is accounted for in an agency fund of Carlton County.

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

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

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

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 2012.

At December 31, 2012, the Community Health Board's summary of financial information was:

Total Assets	\$	1,069,874
Total Liabilities		834,118
Total Net Position		235,756
Total Revenues		4,748,262
Total Expenses		4,760,579
Change in Net Position		(12,317)

Separate financial information can be obtained from:

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

Northeast Minnesota Office of Job Training

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

**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)

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

A summary of the financial information of the Northeast Minnesota Office of Job Training's government-wide statements for June 30, 2012, was:

Total Assets	\$ 3,244,642
Total Liabilities	1,805,858
Total Net Assets	1,438,784
Total Revenues	5,300,003
Total Expenses	5,236,622
Change in Net Assets	63,381

Separate financial information can be obtained from:

Northeast Minnesota Office of Job Training  
820 North Ninth Street, Suite 240  
P. O. Box 1028  
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, 2012, was:

Total Assets	\$ 1,237,771
Total Liabilities	309,519
Total Net Position	928,252
Total Revenues	2,646,781
Total Expenses	2,896,651
Change in Net Position	(249,870)

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 2012.

Northeast Minnesota Regional Radio Board

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

The joint powers are the Counties of Aitkin, Carlton, Cass, Cook, Crow Wing, Itasca, Kanabec, Koochiching, Lake, Pine, and St. Louis, and the Cities of Duluth, Hibbing, International Falls, and Virginia. Control of the Northeast Minnesota Regional Radio Board is vested in a Board of Directors composed of one County Commissioner from each of the member counties and one City Councilor from each of the member cities. In addition, there is one member from the Northeast Minnesota Regional Advisory Committee, one member from the Northeast Minnesota Regional Radio System User Committee, and one member from the Northeast Minnesota Owners and Operators Committee who are also voting members of the Board.

Itasca County is the fiscal agent for the Northeast Minnesota Regional Radio Board. Funding is provided by grants and contributions from participating members. Carlton County contributed no funding in 2012.



**CARLTON COUNTY  
CARLTON, MINNESOTA**

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

E. Tax-Forfeited Land

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

F. Carlton County Economic Development Authority

In May 2008, the Carlton County Board passed a resolution establishing the Carlton County Economic Development Authority having the powers and duties of an economic development authority under Minn. Stat. §§ 469.090-469.1081 and of a housing authority under Minn. Stat. §§ 469.001-469.047.

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

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

*EXHIBIT A-1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 10,595,022	\$ 10,595,022	\$ 10,753,111	\$ 158,089
Special assessments	484,000	484,000	514,504	30,504
Licenses and permits	127,375	127,375	112,108	(15,267)
Intergovernmental	2,912,438	2,912,438	4,290,562	1,378,124
Charges for services	1,855,415	1,855,415	2,070,984	215,569
Fines and forfeits	25,000	25,000	49,336	24,336
Gifts and contributions	10,000	10,000	26,253	16,253
Investment income	152,000	152,000	46,192	(105,808)
Miscellaneous	381,215	381,215	704,177	322,962
<b>Total Revenues</b>	<b>\$ 16,542,465</b>	<b>\$ 16,542,465</b>	<b>\$ 18,567,227</b>	<b>\$ 2,024,762</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 275,734	\$ 275,734	\$ 291,920	\$ (16,186)
Courts	82,546	82,546	73,961	8,585
County auditor	820,243	820,243	832,161	(11,918)
License bureau	311,676	311,676	305,221	6,455
County assessor	719,594	719,594	713,275	6,319
Data processing	810,327	810,327	745,316	65,011
Personnel	230,772	230,772	224,199	6,573
Attorney	1,024,558	1,024,558	970,294	54,264
Law library	25,000	25,000	31,376	(6,376)
Recorder	551,706	551,706	724,986	(173,280)
Surveyor	15,000	15,000	15,000	-
Planning and zoning	365,294	365,294	411,947	(46,653)
Maintenance	788,316	788,316	856,286	(67,970)
Veterans service officer	276,642	276,642	272,498	4,144
<b>Total general government</b>	<b>\$ 6,297,408</b>	<b>\$ 6,297,408</b>	<b>\$ 6,468,440</b>	<b>\$ (171,032)</b>
<b>Public safety</b>				
Sheriff	\$ 2,751,940	\$ 2,751,940	\$ 2,936,419	\$ (184,479)
Snowmobile safety	5,000	5,000	2,796	2,204
Boat and water safety	8,000	8,000	6,771	1,229
Ambulance	79,294	79,294	79,294	-
Animal control	6,365	6,365	6,365	-
Coroner	50,471	50,471	63,435	(12,964)
E-911	853,968	853,968	1,192,173	(338,205)
County jail	1,866,978	1,866,978	1,984,790	(117,812)
Community corrections	1,176,688	1,176,688	1,176,688	-
Court services	75,216	75,216	50,370	24,846
Civil defense	45,575	45,575	44,078	1,497
<b>Total public safety</b>	<b>\$ 6,919,495</b>	<b>\$ 6,919,495</b>	<b>\$ 7,543,179</b>	<b>\$ (623,684)</b>

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Sanitation</b>				
Solid waste	\$ 1,193,728	\$ 1,193,728	\$ 1,632,109	\$ (438,381)
Recycling	171,816	171,816	140,191	31,625
<b>Total sanitation</b>	<b>\$ 1,365,544</b>	<b>\$ 1,365,544</b>	<b>\$ 1,772,300</b>	<b>\$ (406,756)</b>
<b>Culture and recreation</b>				
Historical society	\$ 41,200	\$ 41,200	\$ 41,200	\$ -
County fair	39,750	39,750	44,315	(4,565)
Parks	68,124	68,124	66,290	1,834
Regional library	149,490	149,490	149,490	-
Trails	-	-	21,576	(21,576)
<b>Total culture and recreation</b>	<b>\$ 298,564</b>	<b>\$ 298,564</b>	<b>\$ 322,871</b>	<b>\$ (24,307)</b>
<b>Conservation of natural resources</b>				
County extension	\$ 428,144	\$ 428,144	\$ 397,041	\$ 31,103
Soil and water conservation	104,599	104,599	104,599	-
Weed inspector	6,834	6,834	6,315	519
Forestry assistance	9,670	9,670	-	9,670
Timber development	7,300	7,300	37,239	(29,939)
Resource development	46,000	46,000	75,383	(29,383)
Water planning	75,206	75,206	62,783	12,423
Other conservation	-	-	7,752	(7,752)
<b>Total conservation of natural resources</b>	<b>\$ 677,753</b>	<b>\$ 677,753</b>	<b>\$ 691,112</b>	<b>\$ (13,359)</b>
<b>Economic development</b>				
Airport commission	\$ 564,289	\$ 564,289	\$ 557,958	\$ 6,331
Rail authority	300	300	2,300	(2,000)
Small cities grant	-	-	268,672	(268,672)
Arrowhead Regional Development	42,360	42,360	225	42,135
Iron Range Resources	360,358	360,358	299,189	61,169
Other economic development	14,115	14,115	51,881	(37,766)
<b>Total economic development</b>	<b>\$ 981,422</b>	<b>\$ 981,422</b>	<b>\$ 1,180,225</b>	<b>\$ (198,803)</b>
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 31,313	\$ (31,313)
<b>Total Expenditures</b>	<b>\$ 16,540,186</b>	<b>\$ 16,540,186</b>	<b>\$ 18,009,440</b>	<b>\$ (1,469,254)</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<u>\$ 2,279</u>	<u>\$ 2,279</u>	<u>\$ 557,787</u>	<u>\$ 555,508</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 120,000	\$ 120,000	\$ 14,936	\$ (105,064)
Transfers out	<u>-</u>	<u>-</u>	<u>(9,697)</u>	<u>(9,697)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>\$ 120,000</u>	<u>\$ 120,000</u>	<u>\$ 5,239</u>	<u>\$ (114,761)</u>
<b>Net Change in Fund Balance</b>	<u>\$ 122,279</u>	<u>\$ 122,279</u>	<u>\$ 563,026</u>	<u>\$ 440,747</u>
<b>Fund Balance - January 1</b>	<u>14,101,808</u>	<u>14,101,808</u>	<u>14,101,808</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u><u>\$ 14,224,087</u></u>	<u><u>\$ 14,224,087</u></u>	<u><u>\$ 14,664,834</u></u>	<u><u>\$ 440,747</u></u>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*EXHIBIT A-2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,686,652	\$ 2,686,652	\$ 2,720,784	\$ 34,132
Intergovernmental	7,293,984	7,293,984	4,740,348	(2,553,636)
Charges for services	707,000	707,000	456,746	(250,254)
Investment income	-	-	2,500	2,500
Miscellaneous	567,469	567,469	529,224	(38,245)
<b>Total Revenues</b>	<b>\$ 11,255,105</b>	<b>\$ 11,255,105</b>	<b>\$ 8,449,602</b>	<b>\$ (2,805,503)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 685,945	\$ 685,945	\$ 699,158	\$ (13,213)
Maintenance	2,944,447	2,944,447	3,469,467	(525,020)
Construction	6,041,349	6,041,349	4,779,261	1,262,088
Equipment maintenance and shop	1,583,364	1,583,364	1,624,500	(41,136)
<b>Total Expenditures</b>	<b>\$ 11,255,105</b>	<b>\$ 11,255,105</b>	<b>\$ 10,572,386</b>	<b>\$ 682,719</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (2,122,784)</b>	<b>\$ (2,122,784)</b>
<b>Fund Balance - January 1</b>	<b>3,658,595</b>	<b>3,658,595</b>	<b>3,658,595</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>338,237</b>	<b>338,237</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,658,595</b>	<b>\$ 3,658,595</b>	<b>\$ 1,874,048</b>	<b>\$ (1,784,547)</b>



**CARLTON COUNTY  
CARLTON, MINNESOTA**

*EXHIBIT A-3*

**BUDGETARY COMPARISON SCHEDULE  
HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 6,160,122	\$ 6,160,122	\$ 5,982,084	\$ (178,038)
Intergovernmental	7,503,385	7,503,385	8,722,702	1,219,317
Charges for services	190,703	190,703	213,457	22,754
Gifts and contributions	-	-	219	219
Miscellaneous	1,227,587	1,227,587	1,397,221	169,634
<b>Total Revenues</b>	<b>\$ 15,081,797</b>	<b>\$ 15,081,797</b>	<b>\$ 16,315,683</b>	<b>\$ 1,233,886</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 3,855,886	\$ 3,855,886	\$ 3,755,170	\$ 100,716
Social services	8,873,453	8,873,453	9,205,602	(332,149)
<b>Total human services</b>	<b>\$ 12,729,339</b>	<b>\$ 12,729,339</b>	<b>\$ 12,960,772</b>	<b>\$ (231,433)</b>
<b>Health</b>	<b>2,409,958</b>	<b>2,409,958</b>	<b>2,693,815</b>	<b>(283,857)</b>
<b>Total Expenditures</b>	<b>\$ 15,139,297</b>	<b>\$ 15,139,297</b>	<b>\$ 15,654,587</b>	<b>\$ (515,290)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (57,500)</b>	<b>\$ (57,500)</b>	<b>\$ 661,096</b>	<b>\$ 718,596</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	17,000	17,000	9,697	(7,303)
<b>Net Change in Fund Balance</b>	<b>\$ (40,500)</b>	<b>\$ (40,500)</b>	<b>\$ 670,793</b>	<b>\$ 711,293</b>
<b>Fund Balance - January 1</b>	<b>5,843,137</b>	<b>5,843,137</b>	<b>5,843,137</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,802,637</b>	<b>\$ 5,802,637</b>	<b>\$ 6,513,930</b>	<b>\$ 711,293</b>

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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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 heads may make transfers of appropriations within a department with County Board approval. Transfers of appropriations between departments also require approval of the County Board. The legal level of budgetary control (that is, the level at which expenditures may not legally exceed appropriations) is the fund level.

Encumbrance accounting is employed in governmental funds in order to reserve a portion of an appropriation. Encumbrances (for example, purchase orders or contracts) outstanding at year-end 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, 2012, expenditures exceeded appropriations in the following funds:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund	\$ 16,540,186	\$ 18,009,440	\$ 1,469,254
Human Services Special Revenue Fund	15,139,297	15,654,587	515,290

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**SUPPLEMENTARY INFORMATION**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**NONMAJOR GOVERNMENTAL FUNDS**

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

The Capital Projects Fund is used to account for the expenditure of bond proceeds which were issued to finance the construction of a new human services building.

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

*EXHIBIT B-1*

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

	<b>Forfeited Tax Special Revenue Fund</b>	<b>Capital Projects Fund</b>	<b>Total (Exhibit 3)</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 114,164	\$ 347,041	\$ 461,205
Due from other governments	-	136,892	136,892
Accounts receivable	622,782	-	622,782
<b>Total Assets</b>	<b>\$ 736,946</b>	<b>\$ 483,933</b>	<b>\$ 1,220,879</b>
<b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 260	\$ 128,086	\$ 128,346
Salaries payable	8,670	-	8,670
Due to other funds	101,096	-	101,096
Due to other governments	6,006	8,806	14,812
Deferred revenue - unavailable	548,169	-	548,169
<b>Total Liabilities</b>	<b>\$ 664,201</b>	<b>\$ 136,892</b>	<b>\$ 801,093</b>
<b>Fund Balances</b>			
Restricted for			
Capital projects	\$ -	\$ 347,041	\$ 347,041
Assigned to			
Forfeited tax	72,745	-	72,745
<b>Total Fund Balances</b>	<b>\$ 72,745</b>	<b>\$ 347,041</b>	<b>\$ 419,786</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 736,946</b>	<b>\$ 483,933</b>	<b>\$ 1,220,879</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*EXHIBIT B-2*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Forfeited Tax Special Revenue Fund</b>	<b>Capital Projects Fund</b>	<b>Total (Exhibit 5)</b>
<b>Revenues</b>			
Taxes	\$ 63,231	\$ -	\$ 63,231
Intergovernmental	38,830	307,206	346,036
Miscellaneous	391,555	13,525	405,080
	<b>\$ 493,616</b>	<b>\$ 320,731</b>	<b>\$ 814,347</b>
<b>Expenditures</b>			
<b>Current</b>			
General government	\$ 5,600	\$ -	\$ 5,600
Conservation of natural resources	400,335	-	400,335
<b>Capital outlay</b>	-	1,152,034	1,152,034
	<b>\$ 405,935</b>	<b>\$ 1,152,034</b>	<b>\$ 1,557,969</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 87,681</b>	<b>\$ (831,303)</b>	<b>\$ (743,622)</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	\$ -	\$ 383,620	\$ 383,620
Transfers out	(14,936)	-	(14,936)
	<b>\$ (14,936)</b>	<b>\$ 383,620</b>	<b>\$ 368,684</b>
<b>Net Change in Fund Balance</b>	<b>\$ 72,745</b>	<b>\$ (447,683)</b>	<b>\$ (374,938)</b>
<b>Fund Balance - January 1</b>	<b>-</b>	<b>794,724</b>	<b>794,724</b>
<b>Fund Balance - December 31</b>	<b>\$ 72,745</b>	<b>\$ 347,041</b>	<b>\$ 419,786</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*EXHIBIT B-3*

**BUDGETARY COMPARISON SCHEDULE  
FORFEITED TAX SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 340,864	\$ 340,864	\$ 63,231	\$ (277,633)
Intergovernmental	-	-	38,830	38,830
Miscellaneous	-	-	391,555	391,555
<b>Total Revenues</b>	<b>\$ 340,864</b>	<b>\$ 340,864</b>	<b>\$ 493,616</b>	<b>\$ 152,752</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
County auditor/treasurer	\$ -	\$ -	\$ 5,600	\$ (5,600)
<b>Conservation of natural resources</b>				
Land use	340,864	340,864	400,335	(59,471)
<b>Total Expenditures</b>	<b>\$ 340,864</b>	<b>\$ 340,864</b>	<b>\$ 405,935</b>	<b>\$ (65,071)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 87,681</b>	<b>\$ 87,681</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(14,936)	(14,936)
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 72,745</b>	<b>\$ 72,745</b>
<b>Fund Balance - January 1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 72,745</b>	<b>\$ 72,745</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*EXHIBIT B-4*

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,313,342	\$ 1,313,342	\$ 1,310,555	\$ (2,787)
Intergovernmental	34,091	34,091	232,462	198,371
<b>Total Revenues</b>	<b>\$ 1,347,433</b>	<b>\$ 1,347,433</b>	<b>\$ 1,543,017</b>	<b>\$ 195,584</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 525,000	\$ 525,000	\$ 3,215,000	\$ (2,690,000)
Interest	822,433	822,433	735,310	87,123
Bond issuance costs	-	-	70,338	(70,338)
Administrative (fiscal) charges	-	-	3,612	(3,612)
<b>Total Expenditures</b>	<b>\$ 1,347,433</b>	<b>\$ 1,347,433</b>	<b>\$ 4,024,260</b>	<b>\$ (2,676,827)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (2,481,243)</b>	<b>\$ (2,481,243)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	\$ -	\$ -	\$ (383,620)	\$ (383,620)
Refunding bonds issued	-	-	4,010,000	4,010,000
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,626,380</b>	<b>\$ 3,626,380</b>
<b>Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,145,137</b>	<b>\$ 1,145,137</b>
<b>Fund Balance - January 1</b>	<b>2,179,010</b>	<b>2,179,010</b>	<b>2,179,010</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,179,010</b>	<b>\$ 2,179,010</b>	<b>\$ 3,324,147</b>	<b>\$ 1,145,137</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**FIDUCIARY FUNDS**

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

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

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

*EXHIBIT C-1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>MOTOR VEHICLE REGISTRATION</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 4,455,512	\$ 4,455,512	\$ -
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 4,455,512	\$ 4,455,512	\$ -
 <b><u>EMPLOYEE FLEXIBLE BENEFITS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 81,588	\$ 121,521	\$ 122,707	\$ 80,402
<b><u>Liabilities</u></b>				
Accounts payable	\$ 81,588	\$ 121,521	\$ 122,707	\$ 80,402
 <b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 95,238	\$ 5,079,492	\$ 5,054,526	\$ 120,204
<b><u>Liabilities</u></b>				
Due to other governments	\$ 95,238	\$ 5,079,492	\$ 5,054,526	\$ 120,204

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>SCHOOL DISTRICTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>221,319</u>	\$ <u>9,432,145</u>	\$ <u>9,495,105</u>	\$ <u>158,359</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>221,319</u>	\$ <u>9,432,145</u>	\$ <u>9,495,105</u>	\$ <u>158,359</u>
 <b><u>TOWNS AND CITIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>186,499</u>	\$ <u>9,894,267</u>	\$ <u>9,974,863</u>	\$ <u>105,903</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>186,499</u>	\$ <u>9,894,267</u>	\$ <u>9,974,863</u>	\$ <u>105,903</u>
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>-</u>	\$ <u>45,286,682</u>	\$ <u>45,286,682</u>	\$ <u>-</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>-</u>	\$ <u>45,286,682</u>	\$ <u>45,286,682</u>	\$ <u>-</u>



**CARLTON COUNTY  
CARLTON, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>NORTHEASTERN WASTE ADVISORY COUNCIL</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>1,193</u>	\$ <u>1</u>	\$ <u>-</u>	\$ <u>1,194</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>1,193</u>	\$ <u>1</u>	\$ <u>-</u>	\$ <u>1,194</u>
 <b><u>REFUNDING</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>25,323</u>	\$ <u>544,875</u>	\$ <u>546,960</u>	\$ <u>23,238</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>25,323</u>	\$ <u>23,238</u>	\$ <u>25,323</u>	\$ <u>23,238</u>
 <b><u>COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>492,879</u>	\$ <u>412,658</u>	\$ <u>379,202</u>	\$ <u>526,335</u>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 2,685	\$ 3,119	\$ 2,685	\$ 3,119
Salaries payable	2,815	3,097	2,815	3,097
Due to other governments	<u>487,379</u>	<u>520,119</u>	<u>487,379</u>	<u>520,119</u>
<b>Total Liabilities</b>	<b>\$ <u>492,879</u></b>	<b>\$ <u>526,335</u></b>	<b>\$ <u>492,879</u></b>	<b>\$ <u>526,335</u></b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>ARROWHEAD HEALTH ALLIANCE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>243,928</u>	\$ <u>82,226</u>	\$ <u>112,592</u>	\$ <u>213,562</u>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 14	\$ 810	\$ 14	\$ 810
Due to other governments	<u>243,914</u>	<u>212,752</u>	<u>243,914</u>	<u>212,752</u>
<b>Total Liabilities</b>	<b>\$ <u>243,928</u></b>	<b>\$ <u>213,562</u></b>	<b>\$ <u>243,928</u></b>	<b>\$ <u>213,562</u></b>
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>1,347,967</u>	\$ <u>75,309,379</u>	\$ <u>75,428,149</u>	\$ <u>1,229,197</u>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 84,287	\$ 4,580,962	\$ 4,580,918	\$ 84,331
Salaries payable	2,815	3,097	2,815	3,097
Due to other governments	<u>1,260,865</u>	<u>70,448,696</u>	<u>70,567,792</u>	<u>1,141,769</u>
<b>Total Liabilities</b>	<b>\$ <u>1,347,967</u></b>	<b>\$ <u>75,032,755</u></b>	<b>\$ <u>75,151,525</u></b>	<b>\$ <u>1,229,197</u></b>

**OTHER SCHEDULE**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT D-1**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Shared Revenue**

**State**

Highway users tax	\$	3,869,398
County program aid		1,618,634
PERA rate reimbursement		54,851
Disparity reduction aid		370,999
Disaster credit		27,025
Police aid		165,589
E-911		113,768
Flood disaster recovery		9,802
Market value credit		158,419
Casino revenue aid		30,164

<b>Total shared revenue</b>	<b>\$</b>	<b><u>6,418,649</u></b>
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**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$	<b><u>1,158,634</u></b>
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**Payments**

**Local**

Local - ARMER	\$	307,206
Other local contributions		379,078

**State**

Payments in lieu of taxes		374,487
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<b>Total payments</b>	<b>\$</b>	<b><u>1,060,771</u></b>
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**Grants**

**State**

Minnesota Department/Board of		
Crime Victim Services	\$	42,309
Public Safety		309,449
Transportation		53,009
Health		395,693
Natural Resources		74,584
Human Services		2,186,831
Water and Soil Resources		13,349
Office of Environmental Assistance		87,240
Minnesota Pollution Control Agency		20,902
Peace Officer Standards and Training Board		8,302
Iron Range Resources and Rehabilitation Board		220,643

<b>Total state</b>	<b>\$</b>	<b><u>3,412,311</u></b>
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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT D-1  
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Grants (Continued)**

**Federal**

Department of	
Agriculture	\$ 754,047
Housing and Urban Development	290,389
Transportation	594,332
Homeland Security	740,823
Health and Human Services	3,702,266
U.S. Election Assistance	6,367

**Total federal grants** **\$ 6,088,224**

**Total state and federal grants** **\$ 9,500,535**

**Other Federal**

**Treasury**

Build America Bonds Interest Subsidy	<b>\$ 193,521</b>
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**Total Intergovernmental Revenue** **\$ 18,332,110**



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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

**Financial Statements**

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

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

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

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

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unmodified for all major programs, except for the Disaster Grants - Public Assistance (Presidentially Declared Disasters), which is qualified.**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

State Administrative Matching Grants for Supplemental Nutrition Assistance Program (SNAP)	CFDA #10.561
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	CFDA #14.228
Airport Improvement Program	CFDA #20.106
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	CFDA #93.243
Child Support Enforcement	CFDA #93.563
Social Services Block Grant	CFDA #93.667
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	CFDA #97.036

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

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

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

##### 96-11 Capital Assets

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

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

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

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

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

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

1. Adopt a capitalization policy that sets a minimum dollar value for an asset to be accounted for on the capital asset system. Determine the useful lives for various classes of assets to be used for depreciation purposes and the general ledger account codes to be used to record capital asset transactions.
2. Identify the information that will need to be captured by a capital asset accounting system, and establish a system that will provide the information needed to comply with the reporting requirements of GASB Statement 34.
3. Inventory all capital assets, including infrastructure assets, owned by the County, and assign responsibility for each asset to a particular department head or official.
4. Assign actual or estimated historical cost to each item. Enter the information into the capital asset system.

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

Client's Response:

*The County 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 2014.*

96-12 Segregation of Duties

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

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

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

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

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

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

Client's Response:

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

96-18 Jail Canteen Account

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

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

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

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

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

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

Client's Response:

*The County Auditor will work with the County Board and County Sheriff to include the jail canteen accounts within the general ledger system while maintaining the dedication of the funds for the benefit of the inmates. The County recently hired a new Jail Administrator (due to a retirement) and has entered into a contract for Jail vending services; it is hoped that this issue can be resolved in 2014.*

06-2 Audit Adjustments

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

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

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

**Effect:** Audit adjustments were necessary to record additional receivables found during the audit, adjust components of fund balance, adjust state-aid highway allotments, and make reclassification entries as necessary. Audit adjustments were also necessary to adjust modified accrual financial statements to the accrual basis for the government-wide financial statements.

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

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

Client's Response:

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

06-3 Journal Entries

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

**Condition:** Journal entries made by employees are not reviewed or approved by anyone else.

**Context:** Carlton County seldom uses journal entries for making adjustments to the financial records. Adjustments are posted to the general ledger as negative receipts and disbursements where corrections are required. Journal entries are generally used only in unusual circumstances and in financial closing procedures.

**Effect:** Lack of a review and approval process for journal entries exposes the County to potential for errors or fraudulent activities to occur and remain undetected.

**Cause:** The County has not developed procedures for review and approval of journal entries.

**Recommendation:** We recommend the County Auditor/Treasurer annually review the access to the journal entry function to determine 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 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

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

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

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

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

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

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

Client's Response:

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



#### 06-5 Computer Risk Management

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

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

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

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

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

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

#### Client's Response:

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

#### 07-1 Approval of Time Sheets

**Criteria:** Management is responsible for establishing and maintaining internal control. A basic internal control to help ensure the accurate reporting of payroll transactions in the County's financial records is employee and supervisor signatures on time reports attesting to the validity of time reported as worked.

**Condition:** We noted two instances where supervisors approved their own time report.

**Context:** Two of 40 transactions tested did not have appropriate approval.

**Effect:** Unapproved time reports can result in time reporting errors and/or payment of fraudulent claims of hours actually worked.

**Cause:** The County does not have a policy or procedure addressing who should be approving supervisors' time reports.

**Recommendation:** 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 Coordinator (HR Director), will review this matter and make a recommendation to the County Board for action.*

08-1 Other Postemployment Benefits (OPEB)

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

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

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

**Effect:** An adverse opinion is issued on the government-wide financial statements of Carlton County.

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

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

Client's Response:

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

10-2 Preparation of the Schedule of Expenditures of Federal Awards

**Criteria:** The Office of Management and Budget's (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Auditee Responsibilities*, Subpart C.300(a) and (d) requires, "The auditee shall identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the Catalogue of Federal Domestic Assistance (CFDA) title and number, award number and year, name of the Federal agency, and name of the pass-through entity. The auditee shall prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards (SEFA) in accordance with subpart C.310."

**Condition:** The County did not adequately present a properly prepared SEFA identifying all federal programs and amounts expended, federal grantor agencies, pass-through agencies, and CFDA titles and numbers as required under OMB Circular A-133.

**Context:** In 2012, the County expended \$6,108,076 in federal awards. A properly prepared SEFA allows external auditors to correctly identify major federal programs subject to audit.

**Effect:** The inability to identify and track federal expenditures or to detect significant misstatements in the SEFA increases the likelihood that the federal expenditures would not be fairly reported and is an indication of a deficiency in internal control.

**Cause:** The County does not have adequate procedures in place to identify, classify, and track federal awards for reporting on the SEFA or in the financial statements.

**Recommendation:** We recommend County management develop a system with written procedures that will allow staff to correctly identify and classify all federal financial assistance received and expended. Procedures should include determination of the correct program CFDA number, revenue source, and program name. The federal CFDA website is available to assist in this process. Those responsible for compiling the SEFA should obtain the training necessary (through courses or reference materials) to understand the components of the SEFA and properly gather the correct information and maintain supporting documentation. The County should also reconcile the SEFA amounts to the general ledger and financial statements.

Client's Response:

*The County will work to develop a process to adequately identify federal revenues and accumulate the information necessary to prepare the SEFA. The County will also work to reconcile the SEFA amount to the general ledger and financial statements.*

ITEMS ARISING THIS YEAR

12-1 Assessing and Monitoring Internal Controls - Landfill Transfer Station

**Criteria:** Management is responsible for the County's internal control over the security of its assets. This responsibility requires performing risk assessments of existing controls over significant County operations and functions. The purpose of the risk assessment is to determine if the internal controls established by management are still effective, or if changes are necessary to maintain proper control over County assets.

**Condition:** Carlton County operates a landfill transfer station site in which one employee had control over cash collections, receipting, custody, and reconciling daily receipts to collections. This concentration of incompatible functions in one employee created a lack of segregation of duties necessary to ensure adequate internal accounting control. Rotation of employees/duties occurred only as needed to staff the facility when the regular employee was unavailable, and there was only limited oversight over landfill transfer station transactions, thus exposing County assets to risk of loss.

**Context:** The County had previously determined that it was not cost effective to rotate personnel in this area. The County chose to have a single employee at the transfer station responsible for collecting receipts, recording the transaction through a cash register, balancing daily receipts to collections by preparing a report reconciling each day's receipts to the total of cash register tape transactions, and preparing a daily deposit.

**Effect:** Cash collections were exposed to the risk of theft.

**Cause:** After considering the staffing resources of the department, the former Zoning Officer did not implement the option of rotating personnel/duties on a regular basis. Also, the practice of surprise cash counts was performed only on a limited basis.

**Recommendation:** Management should perform a risk assessment of its current internal controls, including management oversight of operations, and design/implement any further controls deemed necessary to ensure County assets are adequately safeguarded. Procedures to consider could include performing surprise cash counts, reviewing and tracking daily receipting activity, and requiring explanations for significant variances based upon historical trends. Management has recently installed a video camera which monitors daily traffic and cash register transactions. The video record should be periodically reviewed and compared to activity where fluctuations exist that vary from expectations. We also recommend immediate follow-up and reporting to the proper level of management of any customer complaints received by County staff.

Client's Response:

*Carlton County has implemented several changes to the oversight of the Transfer Station Operation, including, but not limited to the following:*

*Performing random/surprise cash counts on a more frequent basis.*

*Installation of security cameras to monitor daily transactions.*

*Hired additional personnel so as to provide for rotation of staff at the Transfer Station.*

12-2 Timeliness of Preparation of Financial Statements

**Criteria:** Management is responsible for preparing the County's financial statements in accordance with generally accepted accounting principles (GAAP) and U.S. Office of Management and Budget (OMB) Circular A-133. The financial statement preparation requires internal control over both (1) recording, processing, and summarizing accounting data (that is, maintaining internal books and records) and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

**Condition:** Certain information needed for financial reporting was not prepared by County staff in advance of the audit. Although County staff attempted to provide information as timely as possible during the audit, there were delays in obtaining information requested. With the exception of the Health and Human Services Fund, various work papers and schedules necessary to support the County's conversion of its cash basis general ledger to modified accrual and the preparation of the related trial balances and financial statements were provided for audit as they became available between September 9 and October 31, 2013.

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

**Effect:** Delays in completing the County's financial statements within a reasonable amount of time.

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

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

Client's Response:

*Carlton County is aware of the situation whereby the County financial statements are not necessarily prepared in a timely fashion in accordance with GAAP and OMB Circular A-133. The County will work to adopt procedures to ensure that the necessary financial information is prepared in a manner that allows our auditors adequate time to complete their audit by the required deadlines.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Inventory Records (10-1)**

Inventory test counts performed were not reconcilable to client perpetual inventory records.

**Resolution**

Inventory test counts performed in the current year reconciled to client inventory records.

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

#### ITEM ARISING THIS YEAR

##### 12-3 Cash Management

**Program:** U.S. Department of Homeland Security's Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)

**Pass-Through Agency:** Minnesota Department of Public Safety

**Criteria:** The Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program awards funding on a reimbursement basis. The 2012 *OMB Circular A-133 Compliance Supplement*, Part 3 C., Cash Management, states that, when entities are funded on a reimbursement basis, the costs for which reimbursement was requested should be paid prior to the date of the reimbursement request.

**Condition:** The County requested reimbursement for costs in Project Worksheets which had not already been paid by the County in the amount of \$59,150.

**Questioned Costs:** None.

**Context:** Of the five Project Worksheets submitted requesting reimbursements, two had requests for costs incurred, but not paid as of the date signed by the applicant. The County sent supporting documentation to the Minnesota Department of Public Safety for the claim, but the actual invoices were either paid by the County after the date of request or had not been paid as of September 2013.

**Effect:** Noncompliance with federal cash management requirements for a reimbursement grant program. Failure or lack of an internal control designed to ensure compliance with federal cash management procedures.

**Cause:** In one instance, the County thought all invoices reported were paid prior to submission of the Project Worksheet requesting reimbursement. In the other instance, the County stated the vendor said to pay them once the County received the funding from the state and federal government. The County staff were not aware that all costs needed to be paid prior to requesting reimbursement and thought the costs just needed to be incurred.

**Recommendation:** We recommend Carlton County comply with federal cash management requirements related to this grant program and request reimbursement only for those costs that have been incurred and paid prior to submitting reimbursement claims to the Minnesota Department of Public Safety. Additionally, the County should review or develop internal controls that will ensure compliance with federal cash management requirements.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Paul G. Gassert, Carlton County Auditor/Treasurer*

Corrective Action Planned:

*Carlton County will ensure that underlying invoices for which reimbursement requests are being submitted (for costs incurred) shall have been paid prior to the reimbursement request submission.*

*With respect to the above referenced issues:*

*Said issues arose due to a significant flooding event which occurred within Carlton County June 20, 2012. Carlton County staff, working with staff from the Federal Emergency Management Agency, Department of Homeland Security, and others, were lead to believe that requests for reimbursement should be submitted in a timely fashion so as to prevent the county from suffering financial hardship.*

Anticipated Completion Date:

*Effective January 1, 2014*

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

**A. MINNESOTA LEGAL COMPLIANCE**

**PREVIOUSLY REPORTED ITEMS NOT RESOLVED**

**96-3 Electronic Funds Transfer Policy**

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

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

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



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

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

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

Client's Response:

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

96-4

Unclaimed Funds

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

**Condition:** The County Auditor/Treasurer has established a system for keeping track of checks to be reported to the Commissioner. However, the County Auditor/Treasurer has not filed any unclaimed property reports with the state or turned over any money to the state. The Unclaimed Property funds file was not updated for any potential 2011 and 2012 cancelled warrants at the time of our audit. Our review of the County's documentation of unclaimed checks reveals the amount of unclaimed checks not turned over to the state is approximately \$51,684 as of December 31, 2010.

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

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

**Cause:** County staff are responsible for keeping an updated current file of unclaimed property. The County Auditor/Treasurer is responsible to file required reports with the Commissioner of the Department of Commerce and turn over any unclaimed property after three years. County staff had not updated the unclaimed property file for 2011 and 2012, and the County continues to not comply with this legal requirement.

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

Client's Response:

*The County has 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

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

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

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

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

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

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

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

Client's Response:

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

04-1 Publication of Financial Statements

**Criteria:** The County is required by Minn. Stat. § 375.17 to annually publish its financial statements.

**Condition:** The County Auditor/Treasurer did not publish the financial statements for 2012.

**Context:** Financial statements have not been published as required under Minn. Stat. § 375.17 for the years 2003 through 2012.

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

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

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

Client's Response:

*As required by MS 375.17, the Carlton County Auditor will ensure that the financial statements for 2003 through 2012 are published in the county's legal newspaper.*

08-2 Collateral Assignments

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

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

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

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

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

**Recommendation:** We recommend 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 is working to secure a new (current) collateral agreement with Wells Fargo.*

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-24 Budgets

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

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

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

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

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

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

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

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

Client's Response:

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

Disaster Recovery Plan

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

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

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

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

**Cause:** The plan has not been updated since 1993.

**Recommendation:** We recommend 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.*

Contract Change Orders

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

**Condition:** In a prior 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.

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

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

**Cause:** It has been past practice to bring change orders to the Board for approval, but the County lacks a formal change order policy.

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

Client's Response:

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

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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***

### Independent Auditor's Report

Board of County Commissioners  
Carlton County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carlton County as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated February 14, 2014. We have issued an adverse opinion on the government-wide financial statements because Carlton County has reported neither capital assets nor other postemployment benefits (OPEB) obligations in the Statement of Net Position and has reported neither the related depreciation nor the net OPEB obligation change in the Statement of Activities, as required by generally accepted accounting principles. Also, capital expenditures have not been eliminated from the Statement of Activities.

### **Internal Control Over Financial Reporting**

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

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-11, 06-2, 08-1, 10-2, and 12-1 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-12, 96-18, 06-3, 06-4, 06-5, 07-1, and 12-2 to be significant deficiencies.

### **Compliance and Other Matters**

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

### **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, 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 audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because that provision was not applicable.

In connection with our audit, nothing came to our attention that caused us to believe that Carlton County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as items 96-3, 96-4, 96-25, 04-1, and 08-2. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

### **Other Matters**

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

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

### **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

February 14, 2014

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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REBECCA OTTO  
STATE AUDITOR

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

### Independent Auditor's Report

Board of County Commissioners  
Carlton County

### **Report on Compliance for Each Major Federal Program**

We have audited Carlton County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2012. Carlton County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Carlton County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

***Opinion on Each Major Federal Program***

***Basis for Modified Opinion on CFDA No. 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)***

As described in the accompanying Schedule of Findings and Questioned Costs, Carlton County did not comply with requirements regarding CFDA No. 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters) as described in finding 12-3 for Cash Management. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

***Modified Opinion on CFDA No. 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)***

In our opinion, except for the noncompliance described in the Basis for Modified Opinion paragraph, Carlton County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA No. 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters) for the year ended December 31, 2012.

***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, Carlton County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2012.

***Other Matters***

Carlton County's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Carlton County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control Over Compliance**

Management of Carlton County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal

program 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not 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 12-3, to be a material weakness.

Carlton County's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Carlton County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Purpose of This Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

February 14, 2014

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REBECCA OTTO  
STATE AUDITOR

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## REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

### Independent Auditor's Report

Board of County Commissioners  
Carlton County

We have audited the accompanying Schedule of Expenditures of Federal Awards (SEFA) of Carlton County for the year ended December 31, 2012.

#### ***Management's Responsibility for the SEFA***

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on Carlton County's SEFA based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 the SEFA is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the SEFA. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the SEFA, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the SEFA in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the SEFA.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the SEFA presents fairly, in all material respects, the expenditures of federal awards of Carlton County for the year ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

February 14, 2014

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT D-2**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>			
Direct			
Intermediary Relending Program	10.767		\$ 196,000
Rural Business Enterprise Grants	10.769		99,000
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		200,373
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		<u>258,674</u>
<b>Total U.S. Department of Agriculture</b>			<b><u>\$ 754,047</u></b>
<b>U.S. Department of Housing and Urban Development</b>			
Passed Through Minnesota Department of Employment and Economic Development			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	CDAP-10-0079-O-FY11	<b><u>\$ 290,389</u></b>
<b>U.S. Department of Transportation</b>			
Passed Through Minnesota Department of Transportation			
Airport Improvement Program	20.106	SP-0904-32, SP-0904-33, SP-0902-49, SP-0902-50, and 0902-51	\$ 359,033
Highway Planning and Construction	20.205	088-070-013, 009-601-042, and 009-607-022	<u>189,759</u>
<b>Total U.S. Department of Transportation</b>			<b><u>\$ 548,792</u></b>
<b>U.S. Election Assistance Commission</b>			
Passed through Minnesota Secretary of State			
Help America Vote Act Requirements Payments	90.401		<b><u>\$ 6,367</u></b>
<b>U.S. Department of Health and Human Services</b>			
Direct			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		\$ 359,711

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT D-2  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services (Continued)</b>			
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board			
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		37,149
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505		74,992
Temporary Assistance for Needy Families Cluster Temporary Assistance for Needy Families (TANF) (Total TANF 93.558 \$411,917)	93.558		37,763
Medical Assistance Program (Total Medical Assistance Program 93.778 \$1,023,318)	93.778		71,986
Maternal and Child Health Services Block Grant to the States	93.994		37,635
Passed Through Arrowhead Health Alliance (AHA)			
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912		22,194
Passed Through Minnesota Department of Human Services			
Guardianship Assistance	93.090		42,378
Pregnancy Assistance Fund Program	93.500		48,160
Community Transformation Grants and National Dissemination and Support for Community Transformation Grants	93.531		3,755
Promoting Safe and Stable Families	93.556		6,935
Temporary Assistance for Needy Families Cluster Temporary Assistance for Needy Families (TANF) (Total TANF 93.558 \$411,917)	93.558		374,154
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714		7,897
Child Support Enforcement	93.563		935,360
Refugee and Entrant Assistance - State Administered Grants	93.566		606
Child Care and Development Block Grant	93.575		14,322
Stephanie Tubbs Jones Child Welfare Services Program	93.645		1,734
Foster Care Title IV-E	93.658		298,447
Adoption Assistance	93.659		69,309
Social Services Block Grant	93.667		286,796
Chafee Foster Care Independence Program	93.674		765
Children's Health Insurance Program	93.767		78
Medical Assistance Program (Total Medical Assistance Program 93.778 \$1,023,318)	93.778		951,332
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 3,683,458</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT D-2  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>
<b>U.S. Department of Homeland Security</b>			
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012		\$ 4,610
Passed Through Minnesota Department of Public Safety Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		<u>820,413</u>
<b>Total U.S. Department of Homeland Security</b>			<b><u>\$ 825,023</u></b>
<b>Total Federal Awards</b>			<b><u><u>\$ 6,108,076</u></u></b>

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Carlton County under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Carlton County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Carlton County.

3. Summary of Significant Accounting Policies

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

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Temporary Assistance for Needy Families Cluster	\$	419,814
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**CARLTON COUNTY  
CARLTON, MINNESOTA**

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5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 6,088,224
Grants received more than 90 days after year-end, deferred in 2012	
Airport Improvement Program	82,282
Highway Planning and Construction	52,072
Disaster Grants - Public Assistance	84,200
Deferred in 2011, recognized as revenue in 2012	
Airport Improvement Program	(137,774)
Highway Planning and Construction	(42,120)
Medical Assistance	(18,808)
	<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 6,108,076</u>

6. Subrecipients

Of the expenditures presented in the schedule, Carlton County did not provide any federal awards to subrecipients.

7. 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.