

# STATE OF MINNESOTA

## Office of the State Auditor



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

---

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

FOR THE YEAR ENDED DECEMBER 31, 2006

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

The mission of the State Auditor's Office 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.

Office of the State Auditor  
525 Park Street, Suite 500  
Saint Paul, Minnesota 55103  
(651) 296-2551  
state.auditor@state.mn.us  
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**For the Year Ended December 31, 2006**



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

This page was left blank intentionally.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
<b>Introductory Section</b>		
Organization		1
<b>Financial Section</b>		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	11
Statement of Activities	Exhibit 2	12
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	13
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets-- Governmental Activities	Exhibit 4	17
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	Exhibit 6	20
Fiduciary Funds		
Statement of Fiduciary Net Assets	Exhibit 7	21
Notes to the Financial Statements		22
<b>Required Supplementary Information</b>		
Budgetary Comparison Schedules		
General Fund	Schedule 1	52
Special Revenue Funds		
Road and Bridge Fund	Schedule 2	55
Human Services Fund	Schedule 3	56
Forfeited Tax Fund	Schedule 4	57
Notes to the Required Supplementary Information		58

**CARLTON COUNTY  
CARLTON, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
<b>Financial Section (Continued)</b>		
Supplementary Information		
Governmental Funds		
Budgetary Comparison Schedule		
Debt Service Fund	Schedule 5	59
Fiduciary Funds		
Agency Funds		
Combining Statement of Changes in Assets and Liabilities	Statement 1	60
Other Schedule		
Schedule of Intergovernmental Revenue	Schedule 6	64
<b>Management and Compliance Section</b>		
Schedule of Findings and Questioned Costs	Schedule 7	66
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing     Standards</i>		82
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		85
Schedule of Expenditures of Federal Awards	Schedule 8	88



This page was left blank intentionally.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

ORGANIZATION  
AS OF DECEMBER 31, 2006

			<u>Term Expires</u>
<b>Elected</b>			
<b>Commissioners</b>			
Chair	Dick Brenner	District 1	January 2009
Board Member	Frank Liupakka	District 2	January 2007
Board Member	Melvin Tan	District 3	January 2007
Board Member	Gordon Aanerud	District 4	January 2009
Board Member	Ted Pihlman	District 5	January 2009
Attorney	Thomas H. Pertler		January 2007
Auditor/Treasurer	Paul Gassert		January 2007
Coroner	Richard Puumala, M.D.		January 2007
Sheriff	Kelly Lake		January 2007
<b>Appointed</b>			
Assessor	Dale Smith		January 2009
Recorder	Kristine Basilici		December 2006
Registrar of Titles	Kristine Basilici		December 2006
Highway Engineer	Wayne Olson		May 2009
Veteran Services Officer	Duane Brownie		January 2007
Surveyor	William Hayden		December 2006

This page was left blank intentionally.



This page was left blank intentionally.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Carlton County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carlton County, Minnesota, as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Carlton County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of Carlton County as of December 31, 2006, and the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Carlton County as of December 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2007, on our consideration of Carlton County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

November 15, 2007

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

This page was left blank intentionally.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006  
(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, 2006. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

**FINANCIAL HIGHLIGHTS**

- Governmental activities' total net assets are \$15,121,428 of which \$7,449,400, is restricted to specific purposes.
- Carlton County's governmental activities' net assets increased by \$3,165,143 for the year ended December 31, 2006.
- The net cost of governmental activities was \$16,403,484 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$19,568,627.
- Governmental funds' fund balances increased by \$6,381,453.
- Carlton County has not established capital asset records or recorded the related depreciation as required by Governmental Accounting Standards Board Statement 34.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

future spending. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

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

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

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

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

### **Fund Financial Statements**

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

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

differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation in a statement following each governmental fund financial statement.

### Reporting the County's Fiduciary Responsibilities

The County is the trustee, or fiduciary, over assets which can only be used for the trust beneficiaries based on the trust arrangement. All of the County's fiduciary balances are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities 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 focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities.

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

	<u>2006</u>	<u>2005</u>
Assets	\$ 27,949	\$ 23,811
Long-term debt outstanding	\$ (10,571)	\$ (8,102)
Other liabilities	<u>(2,257)</u>	<u>(3,753)</u>
Total Liabilities	<u>\$ (12,828)</u>	<u>\$ (11,855)</u>
Net Assets		
Restricted	\$ 7,449	\$ 3,398
Unrestricted	<u>7,672</u>	<u>8,558</u>
Total Net Assets	<u>\$ 15,121</u>	<u>\$ 11,956</u>

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

	<u>2006</u>	<u>2005</u>
Revenues		
Program revenues		
Fees, fines, charges, and other	\$ 4,516	\$ 5,560
Operating grants and contributions	10,173	10,512
Capital grants and contributions	2,471	2,546
General revenues		
Property taxes	14,277	13,000
Other taxes	238	176
Grants and contributions	3,816	3,915
Other general revenues	<u>1,237</u>	<u>800</u>
Total Revenues	<u>\$ 36,728</u>	<u>\$ 36,509</u>
Program expenses		
General government	\$ 5,696	\$ 5,328
Public safety	5,486	5,636
Culture and recreation	350	406
Highways and streets	6,368	10,325
Human services	10,421	10,210
Health	2,058	1,993
Sanitation	1,211	1,260
Conservation of natural resources	858	994
Economic development	893	1,461
Interest	<u>222</u>	<u>235</u>
Total Expenses	<u>\$ 33,563</u>	<u>\$ 37,848</u>
Increase (Decrease) in Net Assets	\$ 3,165	\$ (1,339)
Net Assets, January 1	<u>11,956</u>	<u>13,295</u>
Net Assets, December 31	<u>\$ 15,121</u>	<u>\$ 11,956</u>

### **Governmental Activities**

The cost of all governmental activities this year was \$33,563,290. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$14,276,741 because some of the cost was paid by those who directly benefited from the programs (\$4,516,058) or by other governments and organizations that subsidized certain programs with grants and contributions (\$12,643,748).

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	
	2006	2005	2006	2005
Highways and streets	\$ 6,368	\$ 10,325	\$ 2,285	\$ 4,886
Human services	10,421	10,210	3,538	2,953
General government	5,696	5,328	3,833	3,911
Public safety	5,486	5,636	4,771	5,055
Health	2,058	1,993	508	973
All others	3,534	4,356	1,468	1,452
<b>Totals</b>	<b>\$ 33,563</b>	<b>\$ 37,848</b>	<b>\$ 16,403</b>	<b>\$ 19,230</b>

## THE COUNTY’S FUNDS

As the County completed the year, its governmental funds reported a combined fund balance of \$24,186,983, which is greater than last year’s total of \$17,805,530. Included in this year’s total fund balance is a surplus of \$10,830,121 in the County’s General Fund. The overall increase in the governmental funds was due to an increase for funds reserved for highways in the Road and Bridge Fund and increases in undesignated funds in the County’s General Fund and Human Services Fund.

### General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) for the County’s General Fund exceeded the final budget by \$642,234. The largest variances were in general government and economic development.

On the other hand, resources available for appropriation exceeded the final budget for the County’s General Fund by \$2,246,489. Collections were greater than expected in intergovernmental revenues, charges for services, and investment earnings.

Fund balance was anticipated to decrease by \$58,160. Actual fund balance increased by \$1,609,941 due to the net excess collections.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2006, 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 \$7,785,000 outstanding in general obligation bonds, backed by the County, versus \$5,220,000 last year.

New debt resulted from issuing general obligation bonds (\$3,000,000) to fund various road projects throughout the County. Principal and interest payments on all bonds and notes will not exceed the amount allowed by Minn. Stat. § 373.40.

Other obligations include a contract for deed, loans payable, and accrued vacation pay and sick leave payable. More detailed information about the County's long-term liabilities is presented in the notes 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 2007 budget and tax levy.

- The County share of Arrowhead Regional Corrections increased by 14.08 percent.
- Costs for motor fuel were estimated to increase by \$236,600.
- Added \$200,000 for outside boarding of prisoners due to jail being at maximum allowable capacity.
- Property/Casualty and Workers' Compensation insurance are expected to increase 10 percent for 2007.
- Increased anticipated investment earnings by \$260,000.
- Property tax levies have increased 4.96 percent for 2007.

## **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.

This page was left blank intentionally.

## **BASIC FINANCIAL STATEMENTS**

This page was left blank intentionally.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

This page was left blank intentionally.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2006**

**Assets**

Cash and pooled investments	\$ 22,443,834
Receivables - net	4,156,669
Inventories	558,960
Prepaid items	703,240
Deferred charges	86,661
	<hr/>
<b>Total Assets</b>	<b>\$ 27,949,364</b>

**Liabilities**

Accounts payable and other current liabilities	\$ 1,752,213
Accrued interest payable	78,622
Unearned revenue	426,226
Long-term liabilities	
Due within one year	751,313
Due in more than one year	9,819,562
	<hr/>
<b>Total Liabilities</b>	<b>\$ 12,827,936</b>

**Net Assets**

Restricted for	
General government	\$ 331,664
Public safety	48,385
Highways and streets	4,742,723
Sanitation	28,473
Conservation of natural resources	215,263
Economic development	2,082,892
Unrestricted	7,672,028
	<hr/>
<b>Total Net Assets</b>	<b>\$ 15,121,428</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		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	\$ 5,696,123	\$ 961,564	\$ 504,080	\$ 397,696	\$ (3,832,783)
Public safety	5,486,081	292,837	408,051	13,761	(4,771,432)
Highways and streets	6,368,175	335,247	1,767,643	1,980,093	(2,285,192)
Sanitation	1,210,543	787,083	528,392	-	104,932
Human services	10,421,265	674,563	6,208,144	-	(3,538,558)
Health	2,058,007	973,986	576,110	-	(507,911)
Culture and recreation	350,146	12,295	76,284	-	(261,567)
Conservation of natural resources	858,422	368,686	57,806	-	(431,930)
Economic development	892,468	109,797	46,475	79,213	(656,983)
Interest	222,060	-	-	-	(222,060)
<b>Total governmental activities</b>	<b>\$ 33,563,290</b>	<b>\$ 4,516,058</b>	<b>\$ 10,172,985</b>	<b>\$ 2,470,763</b>	<b>\$ (16,403,484)</b>
<b>General revenues</b>					
Property taxes				\$ 14,276,741	
Mortgage registry and deed tax				29,740	
Payments in lieu of tax				207,926	
Grants and contributions not restricted to specific programs				3,816,307	
Unrestricted investment earnings				1,008,212	
Miscellaneous				229,701	
<b>Total general revenues</b>				<b>\$ 19,568,627</b>	
<b>Change in net assets</b>				<b>\$ 3,165,143</b>	
<b>Net Assets - Beginning</b>				<b>11,956,285</b>	
<b>Net Assets - Ending</b>				<b>\$ 15,121,428</b>	

**FUND FINANCIAL STATEMENTS**

This page was left blank intentionally.

**GOVERNMENTAL FUNDS**

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 8,700,407	\$ 6,472,595
Petty cash and change funds	1,575	-
Taxes receivable		
Delinquent	294,085	85,592
Special assessments receivable		
Delinquent	34,599	-
Accounts receivable	100,122	35,939
Accrued interest receivable	292,747	-
Due from other funds	795,908	17,328
Due from other governments	118,213	805,753
Inventories	-	558,960
Prepaid items	703,240	-
Loans receivable	741,992	-
Deposits receivable	100,000	-
	<b>\$ 11,882,888</b>	<b>\$ 7,976,167</b>
<b>Total Assets</b>	<b>\$ 11,882,888</b>	<b>\$ 7,976,167</b>

**EXHIBIT 3**

<b>Human Services</b>	<b>Forfeited Tax</b>	<b>Capital Projects</b>	<b>Nonmajor Fund Debt Service</b>	<b>Total Governmental Funds</b>
\$ 5,485,569	\$ 749,954	\$ -	\$ 1,029,784	\$ 22,438,309
3,950	-	-	-	5,525
129,611	-	-	31,595	540,883
-	-	-	-	34,599
111,616	358,126	-	-	605,803
-	-	-	-	292,747
-	-	574,656	-	1,387,892
916,679	-	-	-	1,840,645
-	-	-	-	558,960
-	-	-	-	703,240
-	-	-	-	741,992
-	-	-	-	100,000
<b>\$ 6,647,425</b>	<b>\$ 1,108,080</b>	<b>\$ 574,656</b>	<b>\$ 1,061,379</b>	<b>\$ 29,250,595</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Liabilities and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 182,752	\$ 106,369
Salaries payable	369,289	181,670
Contracts payable	-	32,432
Due to other funds	123,984	-
Due to other governments	69,797	-
Deferred revenue - unavailable	269,224	765,330
Deferred revenue - unearned	37,721	304,856
	<b>\$ 1,052,767</b>	<b>\$ 1,390,657</b>
<b>Fund Balances</b>		
Reserved for		
Inventories	\$ -	\$ 558,960
Economic development	1,269,373	-
Loans receivable	741,992	-
Prepaid items	703,240	-
Missing heirs	28,231	-
Law library	38,207	-
Recorder's equipment	98,283	-
Recorder's compliance	121,647	-
Sheriff's contingency	4,493	-
Sheriff's gun permit fee	32,421	-
Sheriff's forfeited property	11,471	-
Attorney's forfeited property	45,296	-
Highways	-	4,275,102
Timber development	215,263	-
Deposits receivable	100,000	-
Town roads	-	168,939
Unreserved		
Designated for petty cash funds	1,575	-
Undesignated	7,418,629	1,582,509
Unreserved, reported in nonmajor		
Debt service fund	-	-
	<b>\$ 10,830,121</b>	<b>\$ 6,585,510</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 11,882,888</b>	<b>\$ 7,976,167</b>

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

<u>Human Services</u>	<u>Forfeited Tax</u>	<u>Capital Projects</u>	<u>Nonmajor Fund Debt Service</u>	<u>Total Governmental Funds</u>
\$ 303,460	\$ 16,721	\$ -	\$ -	\$ 609,302
355,337	8,358	-	-	914,654
-	-	-	-	32,432
-	689,252	574,656	-	1,387,892
77,852	48,176	-	-	195,825
110,364	324,448	-	27,915	1,497,281
83,649	-	-	-	426,226
<b>\$ 930,662</b>	<b>\$ 1,086,955</b>	<b>\$ 574,656</b>	<b>\$ 27,915</b>	<b>\$ 5,063,612</b>
\$ -	\$ -	\$ -	\$ -	\$ 558,960
-	-	-	-	1,269,373
-	-	-	-	741,992
-	-	-	-	703,240
-	-	-	-	28,231
-	-	-	-	38,207
-	-	-	-	98,283
-	-	-	-	121,647
-	-	-	-	4,493
-	-	-	-	32,421
-	-	-	-	11,471
-	-	-	-	45,296
-	-	-	-	4,275,102
-	-	-	-	215,263
-	-	-	-	100,000
-	-	-	-	168,939
-	-	-	-	1,575
5,716,763	21,125	-	-	14,739,026
-	-	-	1,033,464	1,033,464
<b>\$ 5,716,763</b>	<b>\$ 21,125</b>	<b>\$ -</b>	<b>\$ 1,033,464</b>	<b>\$ 24,186,983</b>
<b>\$ 6,647,425</b>	<b>\$ 1,108,080</b>	<b>\$ 574,656</b>	<b>\$ 1,061,379</b>	<b>\$ 29,250,595</b>

This page was left blank intentionally.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2006**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>24,186,983</b>
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.</p>		1,497,281
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
<p>General obligation bonds</p>	\$ (7,761,000)	
<p>Contract for deed</p>	(425,000)	
<p>Loans payable</p>	(206,921)	
<p>Compensated absences</p>	(2,177,954)	
<p>Accrued interest payable</p>	(78,622)	
<p>Deferred debt issuance charges</p>	86,661	
	(10,562,836)	(10,562,836)
<b>Net Assets of Governmental Activities (Exhibit 1)</b>	<b>\$</b>	<b><u>15,121,428</u></b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>General</b>	<b>Road and Bridge</b>
<b>Revenues</b>		
Taxes	\$ 7,813,282	\$ 2,250,382
Special assessments	423,461	-
Licenses and permits	103,295	-
Intergovernmental	3,869,966	4,492,588
Charges for services	2,183,545	291,813
Fines and forfeits	48,882	-
Gifts and contributions	23,461	-
Investment income	999,700	-
Miscellaneous	328,705	381,492
	<b>\$ 15,794,297</b>	<b>\$ 7,416,275</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 5,626,323	\$ -
Public safety	5,454,528	-
Highways and streets	-	6,454,125
Sanitation	1,210,543	-
Human services	-	-
Health	-	-
Culture and recreation	350,146	-
Conservation of natural resources	556,631	-
Economic development	892,468	-
<b>Capital outlay</b>	-	-
<b>Debt service</b>		
Principal	181,313	-
Interest	26,250	-
Bond issuance costs	-	29,976
Administrative charge	-	-
	<b>\$ 14,298,202</b>	<b>\$ 6,484,101</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 1,496,095</b>	<b>\$ 932,174</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ 179,321	\$ -
Transfers out	(65,475)	-
Proceeds from sale of bonds	-	3,000,000
Discount on bond issuance	-	(24,000)
	<b>\$ 113,846</b>	<b>\$ 2,976,000</b>
<b>Net Change in Fund Balances</b>	<b>\$ 1,609,941</b>	<b>\$ 3,908,174</b>
<b>Fund Balances - January 1</b>	<b>9,220,180</b>	<b>2,534,834</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>142,502</b>
<b>Fund Balances - December 31</b>	<b>\$ 10,830,121</b>	<b>\$ 6,585,510</b>

**EXHIBIT 5**

<b>Human Services</b>	<b>Forfeited Tax</b>	<b>Capital Projects</b>	<b>Nonmajor Fund Debt Service</b>	<b>Total Governmental Funds</b>
\$ 3,280,966	\$ 50,859	\$ -	\$ 880,760	\$ 14,276,249
-	-	-	-	423,461
-	-	-	-	103,295
7,866,896	9,122	-	120,605	16,359,177
172,693	-	-	-	2,648,051
-	-	-	-	48,882
11,619	-	-	-	35,080
-	-	-	8,512	1,008,212
1,500,017	390,874	731	-	2,601,819
<b>\$ 12,832,191</b>	<b>\$ 450,855</b>	<b>\$ 731</b>	<b>\$ 1,009,877</b>	<b>\$ 37,504,226</b>
\$ -	\$ 37,873	\$ -	\$ -	\$ 5,664,196
-	-	-	-	5,454,528
-	-	-	-	6,454,125
-	-	-	-	1,210,543
10,380,123	-	-	-	10,380,123
2,058,007	-	-	-	2,058,007
-	-	-	-	350,146
-	299,179	-	-	855,810
-	-	-	-	892,468
-	-	54,197	-	54,197
-	-	-	435,000	616,313
-	-	-	192,062	218,312
-	-	-	-	29,976
-	-	-	2,531	2,531
<b>\$ 12,438,130</b>	<b>\$ 337,052</b>	<b>\$ 54,197</b>	<b>\$ 629,593</b>	<b>\$ 34,241,275</b>
<b>\$ 394,061</b>	<b>\$ 113,803</b>	<b>\$ (53,466)</b>	<b>\$ 380,284</b>	<b>\$ 3,262,951</b>
\$ 12,009	\$ -	\$ 53,466	\$ -	\$ 244,796
-	(179,321)	-	-	(244,796)
-	-	-	-	3,000,000
-	-	-	-	(24,000)
<b>\$ 12,009</b>	<b>\$ (179,321)</b>	<b>\$ 53,466</b>	<b>\$ -</b>	<b>\$ 2,976,000</b>
<b>\$ 406,070</b>	<b>\$ (65,518)</b>	<b>\$ -</b>	<b>\$ 380,284</b>	<b>\$ 6,238,951</b>
5,310,693	86,643	-	653,180	17,805,530
-	-	-	-	142,502
<b>\$ 5,716,763</b>	<b>\$ 21,125</b>	<b>\$ -</b>	<b>\$ 1,033,464</b>	<b>\$ 24,186,983</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ 6,238,951**

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 expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 1,497,281	
Deferred revenue - January 1	(2,273,074)	(775,793)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities.

Debt issued		
Bond issued	\$ (3,000,000)	
Discount on bond issued	24,000	
Issuance costs	29,976	(2,946,024)

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

Principal repayments		
General obligation bonds	\$ 435,000	
Loans payable	181,313	616,313

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	\$ 5,500	
Amortization of deferred issuance charges	(6,717)	
Change in compensated absences	(109,589)	
Change in inventories	142,502	31,696

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 3,165,143**

CARLTON COUNTY  
CARLTON, MINNESOTA

*EXHIBIT 7*

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2006

	<u>Agency</u>
<b><u>Assets</u></b>	
Cash and cash equivalents	<u>\$ 1,826,886</u>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 117,636
Salaries payable	3,247
Due to other governments	<u>1,706,003</u>
<b>Total Liabilities</b>	<u>\$ 1,826,886</u>

This page was left blank intentionally.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006**

---

---

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, 2006. 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. This departure from GAAP is discussed in Note 1.D.4. 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, who is elected on a County-wide basis, serves as the clerk of the Board but has no vote.

Joint Ventures

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

---

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are 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. Carlton County has not recorded depreciation expense or eliminated the related capital expenditures in the statement of activities as required by generally accepted accounting principles, as discussed in Note 1.D.4.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following nonmajor governmental fund:

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

Additionally, the County reports the following fiduciary fund type:

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Carlton County considers all revenues as available if collected within 90 days after the end of the current period. 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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

---

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2006, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Pooled investment earnings for 2006 were \$999,700.

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

2. Receivables and Payables

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

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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

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

3. Inventories and Prepaid Items

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

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 market value at the date of donation. The assets are to be depreciated at the government-wide financial statements level.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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

5. Compensated Absences

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

6. Deferred Revenue

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

7. Long-Term Obligations

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Long-Term Obligations (Continued)

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.

8. Fund Equity

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

9. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget for the year ended December 31, 2006:

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 13,655,968	\$ 14,298,202	\$ 642,234
Forfeited Tax Special Revenue Fund	234,402	337,052	102,650

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 22,443,834
Statement of fiduciary net assets	
Cash and pooled investments	<u>1,826,886</u>
Total Cash and Investments	<u>\$ 24,270,720</u>

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, 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 that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County's policy is to maintain adequate collateral for all deposits. As of December 31, 2006, the County's deposits were not exposed to custodial credit risk.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy on custodial credit risk for investments. Of the County's investments at December 31, 2006, \$4,730,000 was held by the counterparty, or by its trust department or agent, but not in the County's name.

Concentration of Credit Risk

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

This table represents the County's deposit and investment balances at December 31, 2006, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Federal National Mortgage Association	AAA	S&P		10/1/25	\$ 9,700
Federal Home Loan Mortgage Corporation Note	AAA	S&P		10/1/25	\$ 10,025
Federal Home Loan Bank Bonds	AAA	S&P		1/23/07	\$ 125,000
Federal Home Loan Bank Bonds	AAA	S&P		5/3/07	99,906
Federal Home Loan Bank Bonds	AAA	S&P		5/14/07	200,062
Federal Home Loan Bank Bonds	AAA	S&P		9/10/07	98,736
Federal Home Loan Bank Bonds	AAA	S&P		9/17/07	98,705
Federal Home Loan Bank Bonds	AAA	S&P		1/15/08	98,705
Federal Home Loan Bank Bonds	AAA	S&P		6/30/08	145,666
Federal Home Loan Bank Bonds	AAA	S&P		8/13/08	245,123
Federal Home Loan Bank Bonds	AAA	S&P		9/5/08	99,777
Federal Home Loan Bank Bonds	AAA	S&P		12/30/08	98,123
Federal Home Loan Bank Bonds	AAA	S&P		9/18/09	199,160
Federal Home Loan Bank Bonds	AAA	S&P		10/23/09	99,844
Federal Home Loan Bank Bonds	AAA	S&P		6/19/13	145,314
Federal Home Loan Bank Bonds	AAA	S&P		7/16/13	95,251
Total Federal Home Loan Bank Bonds			7.66%		\$ 1,849,372
Commercial paper					
Stanfield Victoria	A-1+	S&P		1/3/07	\$ 599,738
HSBC Finance Corp	A-1+	S&P		1/3/07	599,738
AIG	A-1+	S&P		1/16/07	598,768
American Express	A-1	S&P		1/16/07	598,768
New Center Assets	A-1	S&P		1/31/07	597,340
LaSalle Bank Corp	A-1	S&P		1/31/07	597,340
Eaton Vance (EVVLF)	A-1+	S&P		2/15/07	596,010
Prudential	A-1+	S&P		2/14/07	596,010
Societe Generale	A-1+	S&P		3/1/07	594,680
Golden Key	A-1+	S&P		2/26/07	594,680
CommoLoco	A-1	S&P		3/15/07	593,363
General Electric	A-1+	S&P		3/15/07	593,363
Edison Assets	A-1+	S&P		3/28/07	592,035

**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	
Commercial paper (Continued)					
Merrill Lynch	A-1+	S&P		3/28/07	592,035
Atlantis One	A-1+	S&P		4/10/07	590,919
San Paolo	A-1+	S&P		4/10/07	590,919
Total commercial paper					\$ 9,525,706
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 7,525,924
Negotiable certificates of deposit					
Advantage Bank	N/A	N/A	N/A	6/6/07	\$ 94,000
Alliance Bank	N/A	N/A	N/A	3/9/07	95,000
Ameribank	N/A	N/A	N/A	6/6/07	94,000
American Bank	N/A	N/A	N/A	2/8/07	95,000
Amerimark	N/A	N/A	N/A	2/12/07	96,000
Atlanta	N/A	N/A	N/A	1/4/07	95,000
Bank of Doniphandoniphan	N/A	N/A	N/A	7/26/07	94,000
BPD International Bank	N/A	N/A	N/A	1/4/07	95,000
Capital Bank and Trust	N/A	N/A	N/A	3/9/07	95,000
Centennial Bank of the West	N/A	N/A	N/A	10/4/07	94,000
Charter West	N/A	N/A	N/A	11/5/07	94,000
Columbus Bank & Trust	N/A	N/A	N/A	11/21/07	94,998
Cornerstone Bank	N/A	N/A	N/A	2/12/07	96,000
First National Bank of Cold Springs	N/A	N/A	N/A	6/6/07	94,000
First Community Bank	N/A	N/A	N/A	11/5/07	94,000
First Coweta Bank	N/A	N/A	N/A	2/12/07	96,000
First Financial Bank	N/A	N/A	N/A	3/22/07	95,000
First International Bank	N/A	N/A	N/A	7/10/07	94,000
First National Bank of Folston	N/A	N/A	N/A	6/6/07	94,000
First National Bank Midwest	N/A	N/A	N/A	4/13/07	95,000
First City Bank	N/A	N/A	N/A	10/4/07	94,000
Flagstar Bank	N/A	N/A	N/A	3/9/07	95,000
First National Bank of Damariscotta	N/A	N/A	N/A	7/10/07	94,000
Franklin Bank	N/A	N/A	N/A	2/2/07	97,000
Georgia Banking Co.	N/A	N/A	N/A	7/26/07	94,000
Guard Security Bank	N/A	N/A	N/A	2/12/07	96,000
Hemisphere National Bank	N/A	N/A	N/A	2/12/07	96,000
Heritage Bank of Illinois	N/A	N/A	N/A	3/14/07	95,000
Heritage Bank of Arkansas	N/A	N/A	N/A	3/9/07	95,000
Imperial Capital Bank	N/A	N/A	N/A	7/26/07	94,000
Indy Mac Bank	N/A	N/A	N/A	4/13/07	95,000

**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 (Continued)					
Integra Bank	N/A	N/A	N/A	6/29/07	97,000
Metropolitan National Bank	N/A	N/A	N/A	7/10/07	94,000
Midstate Federal Savings and Loan	N/A	N/A	N/A	4/13/07	95,000
Missouri State Bank	N/A	N/A	N/A	2/8/07	95,000
New City Bank	N/A	N/A	N/A	7/10/07	94,000
New Frontier Bank	N/A	N/A	N/A	11/5/07	94,000
North Atlanta National Bank	N/A	N/A	N/A	7/26/07	94,000
North County Bank	N/A	N/A	N/A	7/10/07	94,000
Northland National Bank	N/A	N/A	N/A	10/4/07	94,000
Omni National Bank	N/A	N/A	N/A	11/5/07	94,000
Parkway Bank	N/A	N/A	N/A	1/4/07	95,000
Primesouth Bank	N/A	N/A	N/A	10/4/07	94,000
Royal Oaks Bank	N/A	N/A	N/A	2/8/07	95,000
Seattle Savings Bank	N/A	N/A	N/A	1/31/07	97,000
Security Bank of North Metro Woodstock	N/A	N/A	N/A	6/6/07	94,000
Security National Bank	N/A	N/A	N/A	7/26/07	94,000
Sovereign Bank	N/A	N/A	N/A	11/21/07	95,000
Tennessee Commerce Bank	N/A	N/A	N/A	4/13/07	95,000
Texas Community Bank	N/A	N/A	N/A	4/13/07	95,000
Two Rivers Bank and Trust	N/A	N/A	N/A	11/5/07	94,000
Venture Bank	N/A	N/A	N/A	1/4/07	95,000
Virginia Commerce Bank	N/A	N/A	N/A	1/4/07	95,000
West Pointe Bank	N/A	N/A	N/A	1/4/07	95,000
Woodlands National Bank	N/A	N/A	N/A	3/9/07	94,000
Total negotiable certificates of deposit					\$ 5,210,998
Total investments					\$ 24,131,725
Deposits					133,470
Petty cash					5,525
Total Cash And Investments					<u>\$ 24,270,720</u>

N/A - Not Applicable  
N/R - Not Rated  
S&P - Standard & Poor's

**CARLTON COUNTY  
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2006, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 540,883	\$ -
Special assessments	34,599	-
Due from other governments	1,840,645	-
Accounts	605,803	12,585
Interest	292,747	-
Loans receivable	741,992	664,622
Deposits receivable	100,000	100,000
Total Governmental Activities	\$ 4,156,669	\$ 777,207

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2006, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	Purpose
General	Forfeited Tax	\$ 221,252	Forfeited tax apportionment and payment of fees
	Capital Projects	574,656	Fund deficit cash balance
Total due to General Fund		\$ 795,908	
Road and Bridge	General	\$ 17,328	Reimburse supplies and services
Capital Projects	General	\$ 106,656	Fund construction expenses
	Forfeited Tax	468,000	Fund construction expenses
Total due to Capital Projects Fund		\$ 574,656	
Total Due To/From Other Funds		\$ 1,387,892	

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

3. Detailed Notes on All Funds

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2006, consisted of the following:

Transfers to General Fund from Forfeited Tax Fund	\$ 179,321	Distribute net proceeds
Transfers to Human Services Fund from General Fund	12,009	Repay IV-D
Transfers to Capital Projects Fund from General Fund	<u>53,466</u>	Fund construction expenditures
Total Interfund Transfers	<u>\$ 244,796</u>	

C. Liabilities

1. Payables

Payables at December 31, 2006, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 609,302
Salaries	914,654
Contracts	32,432
Due to other governments	<u>195,825</u>
Total Payables	<u>\$ 1,752,213</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 39 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 2006, the County expended \$286,397 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:

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2006</u>
General obligation bonds					
G.O. Capital Improvement Bonds	2013	\$195,000 - \$205,000	3.70 - 4.60	\$ 650,000	\$ 410,000
2002 G.O. Refunding Bonds	2011	\$195,000 - \$205,000	1.60 - 3.45	1,510,000	790,000
2003 G.O. Capital Improvement Bonds	2023	\$60,000 - \$290,000	1.50 - 4.35	3,900,000	3,585,000
2006 G.O. Capital Improvement Bonds	2021	\$130,000 - \$305,000	3.45 - 4.00	<u>3,000,000</u>	<u>3,000,000</u>
Total General Obligation Bonds				<u>\$ 9,060,000</u>	<u>\$ 7,785,000</u>

Loans Payable

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

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2006</u>
2003 tee hangar loan - Cloquet	2013	\$1,834/month	0.00	\$ 220,082	\$ 144,888
2003 tee hangar loan - Moose Lake	2013	\$775/month	0.00	<u>93,050</u>	<u>62,033</u>
Total Loans Payable				<u>\$ 313,132</u>	<u>\$ 206,921</u>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Contract for Deed

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

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
2005 Contract for Deed	2011	\$25,000 - \$100,000	5.00	\$ 525,000	\$ 425,000

4. Debt Service Requirements

Debt service requirements at December 31, 2006, were as follows:

Year Ending December 31	General Obligation Bonds		Loans	
	Principal	Interest	Principal	Interest
2007	\$ 620,000	\$ 251,006	\$ 31,313	\$ -
2008	695,000	267,405	31,313	-
2009	430,000	248,858	31,313	-
2010	455,000	233,789	31,313	-
2011	265,000	216,861	31,313	-
2012 - 2016	2,100,000	863,672	50,356	-
2017 - 2021	2,650,000	402,001	-	-
2022 - 2023	570,000	25,012	-	-
Total	\$ 7,785,000	\$ 2,508,604	\$ 206,921	\$ -

Year Ending December 31	Contract for Deed	
	Principal	Interest
2007	\$ 100,000	\$ 21,250
2008	100,000	16,250
2009	100,000	11,250
2010	100,000	6,250
2011	25,000	1,250
Total	\$ 425,000	\$ 56,250

**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, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
General obligation bonds	\$ 5,220,000	\$ 3,000,000	\$ 435,000	\$ 7,785,000	\$ 620,000
Bond discount	-	(24,000)	-	(24,000)	-
Loans payable	288,234	-	81,313	206,921	31,313
Contract for deed	525,000	-	100,000	425,000	100,000
Compensated absences	<u>2,068,365</u>	<u>109,589</u>	<u>-</u>	<u>2,177,954</u>	<u>-</u>
Governmental Activities					
Long-Term Liabilities	<u>\$ 8,101,599</u>	<u>\$ 3,085,589</u>	<u>\$ 616,313</u>	<u>\$ 10,570,875</u>	<u>\$ 751,313</u>

4. Pension Plans

A. 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). The PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

4. Pension Plans

A. Plan Description (Continued)

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

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

For all Public Employees Retirement Fund members 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. 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.

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

4. Pension Plans (Continued)

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. Public Employees Police and Fire Fund members were required to contribute 7.00 percent of their annual covered salary in 2006. That rate increased to 7.80 percent in 2007. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2006 and 2007:

	2006	2007
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.00	6.25
Public Employees Police and Fire Fund	10.50	10.70
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2006, 2005, and 2004, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2006	\$ 677,971	\$ 133,127	\$ 56,587
2005	602,955	118,045	52,798
2004	563,716	115,067	52,052

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

5. Postemployment Health Care

A. MSRS Health Care Savings Plan

Carlton County employees are eligible to participate in a Health Care Savings Plan (HCSP) administered by the Minnesota State Retirement System (MSRS). The plan is authorized under the Laws of Minnesota 2001, Chapter 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 employee in Minnesota if they are covered under certain public service retirement plans.

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

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

B. Northland VEBA Trust Plan

In 2005, the Carlton County Board of Commissioners approved a Voluntary Employee's Beneficiary Association plan (VEBA) for funding employee health benefits as authorized under Section 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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

5. Postemployment Health Care

B. Northland VEBA Trust Plan (Continued)

Eligibility requirements include:

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

6. Summary of Significant Contingencies and Other Items

A. Risk Management

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

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 \$390,000 per claim in 2006 and \$400,000 per claim in 2007. 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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

B. Contingent Liabilities

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

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

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, 2006, the outstanding principal balance was \$9,930,000.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

---

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

D. Joint Ventures

Arrowhead Regional Corrections

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

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

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

Arrowhead Regional Corrections is financed through state grants and contributions from the participating counties. During 2006, County contributions were in the following proportion:

Carlton County	8.57%
Cook County	1.00
Koochiching County	2.11
Lake County	1.87
St. Louis County	<u>86.45</u>
Total	<u><u>100.00%</u></u>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

---

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Arrowhead Regional Corrections (Continued)

Below is a summary of the financial information from Arrowhead Regional Corrections' government-wide financial statements as of December 31, 2005 (the most recent audited figures available):

Total Assets	\$	11,657,200
Total Liabilities		5,384,127
Total Net Assets		6,273,073
Total Revenues		18,420,835
Total Expenses		17,920,160
Change in Net Assets		500,675

The total assets balance included \$6,434,017 of capital assets, net of accumulated depreciation. The total liabilities balance included \$4,589,552 in long-term liabilities.

Carlton County provided \$1,040,553 in funding during 2006. Separate financial information can be obtained from:

Arrowhead Regional Corrections  
St. Louis County Courthouse  
100 North 5th Avenue West  
Room 319  
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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Carlton County Children and Family Service Collaborative (Continued)

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, 2006, is accounted for in an agency fund of Carlton County.

Community Health Services 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 Services Board. This agreement was entered into January 1, 1977, and is established pursuant to Minn. Stat. § 471.59.

The Community Health Services 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 2006.

At December 31, 2006, the Community Health Services Board's summary of financial information was:

Total Assets	\$	719,509
Total Liabilities		588,242
Total Net Assets		131,267
Total Revenues		3,469,420
Total Expenses		3,451,323
Change in Net Assets		18,097

Separate financial information can be obtained from:

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

---

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Northeast Minnesota Office of Job Training

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

The governing body is composed of seven members, one 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, 2006, was:

Total Assets	\$ 2,749,976
Total Liabilities	1,182,416
Total Net Assets	1,567,560
Total Revenues	4,940,929
Total Expenses	4,915,961
Change in Net Assets	24,968

Separate financial information can be obtained from:

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

Minnesota Counties Information Systems

The County 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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Minnesota Counties Information Systems (Continued)

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.

A summary of the financial information of MCIS at December 31, 2004 (the most recent information available), was:

Total Assets	\$	630,562
Total Liabilities		240,172
Total Net Assets		390,390
Total Revenues		2,193,747
Total Expenses		2,114,231
Change in Net Assets		79,516

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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

---

---

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

E. Tax-Forfeited Land

The County manages approximately 72,500 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

This page was left blank intentionally.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Schedule 1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Taxes	\$ 7,709,223	\$ 7,709,223	\$ 7,813,282	\$ 104,059
Special assessments	420,000	420,000	423,461	3,461
Licenses and permits	108,572	108,572	103,295	(5,277)
Intergovernmental	3,187,661	3,187,661	3,869,966	682,305
Charges for services	1,580,200	1,580,200	2,183,545	603,345
Fines and forfeits	35,000	35,000	48,882	13,882
Gifts and contributions	500	500	23,461	22,961
Investment income	240,000	240,000	999,700	759,700
Miscellaneous	266,652	266,652	328,705	62,053
<b>Total Revenues</b>	<b>\$ 13,547,808</b>	<b>\$ 13,547,808</b>	<b>\$ 15,794,297</b>	<b>\$ 2,246,489</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 245,889	\$ 245,889	\$ 288,323	\$ (42,434)
Courts	138,169	138,169	134,027	4,142
Law library	25,000	25,000	36,038	(11,038)
County auditor	864,053	864,053	1,181,123	(317,070)
License bureau	249,407	249,407	248,026	1,381
County assessor	732,287	732,287	711,245	21,042
Data processing	615,880	615,880	591,443	24,437
Personnel	148,092	148,092	133,984	14,108
Attorney	777,184	777,184	773,226	3,958
Recorder	486,657	486,657	451,418	35,239
Surveyor	15,000	15,000	15,000	-
Planning and zoning	319,173	319,173	303,566	15,607
Maintenance	607,279	607,279	597,406	9,873
Veterans service officer	158,483	158,483	161,498	(3,015)
<b>Total general government</b>	<b>\$ 5,382,553</b>	<b>\$ 5,382,553</b>	<b>\$ 5,626,323</b>	<b>\$ (243,770)</b>
<b>Public safety</b>				
Sheriff	\$ 2,362,443	\$ 2,362,443	\$ 2,232,138	\$ 130,305
Snowmobile safety	5,000	5,000	5,145	(145)
Boat and water safety	10,000	10,000	6,918	3,082
Ambulance	68,734	68,734	68,734	-
Animal control	6,000	6,000	6,000	-
Coroner	43,547	43,547	45,971	(2,424)
E-911	677,074	677,074	570,794	106,280
County jail	1,425,294	1,425,294	1,441,632	(16,338)
Community corrections	1,040,553	1,040,553	1,040,553	-
Civil defense	35,787	35,787	36,643	(856)
<b>Total public safety</b>	<b>\$ 5,674,432</b>	<b>\$ 5,674,432</b>	<b>\$ 5,454,528</b>	<b>\$ 219,904</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Sanitation</b>				
Solid waste	\$ 1,091,166	\$ 1,091,166	\$ 1,036,451	\$ 54,715
Recycling	178,637	178,637	174,092	4,545
<b>Total sanitation</b>	<b>\$ 1,269,803</b>	<b>\$ 1,269,803</b>	<b>\$ 1,210,543</b>	<b>\$ 59,260</b>
<b>Culture and recreation</b>				
Historical society	\$ 39,000	\$ 39,000	\$ 39,000	\$ -
County fair	35,000	35,000	35,000	-
Parks	75,638	75,638	62,780	12,858
Regional library	137,082	137,082	137,082	-
Trails	-	-	76,284	(76,284)
<b>Total culture and recreation</b>	<b>\$ 286,720</b>	<b>\$ 286,720</b>	<b>\$ 350,146</b>	<b>\$ (63,426)</b>
<b>Conservation of natural resources</b>				
County extension	\$ 324,723	\$ 327,223	\$ 342,382	\$ (15,159)
Soil and water conservation	85,000	85,000	101,106	(16,106)
Weed inspector	6,420	6,420	5,310	1,110
Forestry assistance	8,500	8,500	651	7,849
Timber development	-	-	4,325	(4,325)
Resource development	35,000	35,000	5,614	29,386
Water planning	60,194	60,194	97,243	(37,049)
<b>Total conservation of natural resources</b>	<b>\$ 519,837</b>	<b>\$ 522,337</b>	<b>\$ 556,631</b>	<b>\$ (34,294)</b>
<b>Economic development</b>				
Airport commission	\$ 468,392	\$ 468,392	\$ 329,905	\$ 138,487
Rail authority	5,000	5,000	4,165	835
Arrowhead Regional Development	40,121	40,121	34,693	5,428
Iron Range Resources and Rehabilitation	6,610	6,610	523,705	(517,095)
<b>Total economic development</b>	<b>\$ 520,123</b>	<b>\$ 520,123</b>	<b>\$ 892,468</b>	<b>\$ (372,345)</b>
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 181,313	\$ (181,313)
Interest	-	-	26,250	(26,250)
<b>Total debt service</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 207,563</b>	<b>\$ (207,563)</b>
<b>Total Expenditures</b>	<b>\$ 13,653,468</b>	<b>\$ 13,655,968</b>	<b>\$ 14,298,202</b>	<b>\$ (642,234)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (105,660)</b>	<b>\$ (108,160)</b>	<b>\$ 1,496,095</b>	<b>\$ 1,604,255</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 50,000	\$ 50,000	\$ 179,321	\$ 129,321
Transfers out	-	-	(65,475)	(65,475)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 50,000</b>	<b>\$ 50,000</b>	<b>\$ 113,846</b>	<b>\$ 63,846</b>
<b>Net Change in Fund Balance</b>	<b>\$ (55,660)</b>	<b>\$ (58,160)</b>	<b>\$ 1,609,941</b>	<b>\$ 1,668,101</b>
<b>Fund Balance - January 1</b>	<b>9,220,180</b>	<b>9,220,180</b>	<b>9,220,180</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 9,164,520</b>	<b>\$ 9,162,020</b>	<b>\$ 10,830,121</b>	<b>\$ 1,668,101</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 2,235,933	\$ 2,235,933	\$ 2,250,382	\$ 14,449
Intergovernmental	5,035,096	5,035,096	4,492,588	(542,508)
Charges for services	298,000	298,000	291,813	(6,187)
Miscellaneous	258,300	258,300	381,492	123,192
<b>Total Revenues</b>	<b>\$ 7,827,329</b>	<b>\$ 7,827,329</b>	<b>\$ 7,416,275</b>	<b>\$ (411,054)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 448,116	\$ 448,116	\$ 528,808	\$ (80,692)
Maintenance	2,412,695	2,412,695	2,678,306	(265,611)
Construction	3,841,001	3,841,001	2,103,235	1,737,766
Equipment maintenance and shop	1,125,517	1,125,517	1,143,776	(18,259)
<b>Total highways and streets</b>	<b>\$ 7,827,329</b>	<b>\$ 7,827,329</b>	<b>\$ 6,454,125</b>	<b>\$ 1,373,204</b>
<b>Debt service</b>				
Bond issuance costs	-	-	29,976	(29,976)
<b>Total Expenditures</b>	<b>\$ 7,827,329</b>	<b>\$ 7,827,329</b>	<b>\$ 6,484,101</b>	<b>\$ 1,343,228</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 932,174</b>	<b>\$ 932,174</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of bonds	\$ -	\$ -	\$ 3,000,000	\$ 3,000,000
Discount on bond issuance	-	-	(24,000)	(24,000)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,976,000</b>	<b>\$ 2,976,000</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,908,174</b>	<b>\$ 3,908,174</b>
<b>Fund Balance - January 1</b>	<b>2,534,834</b>	<b>2,534,834</b>	<b>2,534,834</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>142,502</b>	<b>142,502</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,534,834</b>	<b>\$ 2,534,834</b>	<b>\$ 6,585,510</b>	<b>\$ 4,050,676</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 2,235,933	\$ 2,235,933	\$ 2,250,382	\$ 14,449
Intergovernmental	5,035,096	5,035,096	4,492,588	(542,508)
Charges for services	298,000	298,000	291,813	(6,187)
Miscellaneous	258,300	258,300	381,492	123,192
<b>Total Revenues</b>	<b>\$ 7,827,329</b>	<b>\$ 7,827,329</b>	<b>\$ 7,416,275</b>	<b>\$ (411,054)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 448,116	\$ 448,116	\$ 528,808	\$ (80,692)
Maintenance	2,412,695	2,412,695	2,678,306	(265,611)
Construction	3,841,001	3,841,001	2,103,235	1,737,766
Equipment maintenance and shop	1,125,517	1,125,517	1,143,776	(18,259)
<b>Total highways and streets</b>	<b>\$ 7,827,329</b>	<b>\$ 7,827,329</b>	<b>\$ 6,454,125</b>	<b>\$ 1,373,204</b>
<b>Debt service</b>				
Bond issuance costs	-	-	29,976	(29,976)
<b>Total Expenditures</b>	<b>\$ 7,827,329</b>	<b>\$ 7,827,329</b>	<b>\$ 6,484,101</b>	<b>\$ 1,343,228</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 932,174</b>	<b>\$ 932,174</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of bonds	\$ -	\$ -	\$ 3,000,000	\$ 3,000,000
Discount on bond issuance	-	-	(24,000)	(24,000)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,976,000</b>	<b>\$ 2,976,000</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,908,174</b>	<b>\$ 3,908,174</b>
<b>Fund Balance - January 1</b>	<b>2,534,834</b>	<b>2,534,834</b>	<b>2,534,834</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>142,502</b>	<b>142,502</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,534,834</b>	<b>\$ 2,534,834</b>	<b>\$ 6,585,510</b>	<b>\$ 4,050,676</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*Schedule 4*

**BUDGETARY COMPARISON SCHEDULE  
FORFEITED TAX SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Taxes	\$ 234,402	\$ 234,402	\$ 50,859	\$ (183,543)
Intergovernmental	-	-	9,122	9,122
Miscellaneous	-	-	390,874	390,874
<b>Total Revenues</b>	<b>\$ 234,402</b>	<b>\$ 234,402</b>	<b>\$ 450,855</b>	<b>\$ 216,453</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
County auditor/treasurer	\$ -	\$ -	\$ 37,873	\$ (37,873)
<b>Conservation of natural resources</b>				
Land use	234,402	234,402	299,179	(64,777)
<b>Total Expenditures</b>	<b>\$ 234,402</b>	<b>\$ 234,402</b>	<b>\$ 337,052</b>	<b>\$ (102,650)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 113,803</b>	<b>\$ 113,803</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(179,321)	(179,321)
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (65,518)</b>	<b>\$ (65,518)</b>
<b>Fund Balance - January 1</b>	<b>86,643</b>	<b>86,643</b>	<b>86,643</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 86,643</b>	<b>\$ 86,643</b>	<b>\$ 21,125</b>	<b>\$ (65,518)</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2006**

---

---

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 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 by December 28.

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

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2006, expenditures exceeded appropriations in the following funds:

General Fund	\$ 642,234	Funded by greater than anticipated revenues
Forfeited Tax Fund	102,650	Funded by greater than anticipated revenues

This page was left blank intentionally.

**SUPPLEMENTARY INFORMATION**

This page was left blank intentionally.

**GOVERNMENTAL FUNDS**

This page was left blank intentionally.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*Schedule 5*

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Taxes	\$ 889,179	\$ 889,179	\$ 880,760	\$ (8,419)
Intergovernmental	120,605	120,605	120,605	-
Investment income	-	-	8,512	8,512
<b>Total Revenues</b>	<b>\$ 1,009,784</b>	<b>\$ 1,009,784</b>	<b>\$ 1,009,877</b>	<b>\$ 93</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 750,000	\$ 750,000	\$ 435,000	\$ 315,000
Interest	259,784	259,784	192,062	67,722
Administrative (fiscal) charges	-	-	2,531	(2,531)
<b>Total Expenditures</b>	<b>\$ 1,009,784</b>	<b>\$ 1,009,784</b>	<b>\$ 629,593</b>	<b>\$ 380,191</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 380,284</b>	<b>\$ 380,284</b>
<b>Fund Balance - January 1</b>	<b>653,180</b>	<b>653,180</b>	<b>653,180</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 653,180</b>	<b>\$ 653,180</b>	<b>\$ 1,033,464</b>	<b>\$ 380,284</b>

This page was left blank intentionally.

**FIDUCIARY FUNDS**

This page was left blank intentionally.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*Statement 1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>MOTOR VEHICLE REGISTRATION</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 4,238,865	\$ 4,238,865	\$ -
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 4,238,865	\$ 4,238,865	\$ -
 <b><u>EMPLOYEE FLEXIBLE BENEFITS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 89,815	\$ 166,045	\$ 173,582	\$ 82,278
<b><u>Liabilities</u></b>				
Accounts payable	\$ 89,815	\$ 166,045	\$ 173,582	\$ 82,278
 <b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 98,360	\$ 3,839,689	\$ 3,833,823	\$ 104,226
<b><u>Liabilities</u></b>				
Due to other governments	\$ 98,360	\$ 3,839,689	\$ 3,833,823	\$ 104,226

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*Statement 1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>SCHOOL DISTRICTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 97,873	\$ 6,457,089	\$ 6,471,298	\$ 83,664
<b><u>Liabilities</u></b>				
Due to other governments	\$ 97,873	\$ 6,457,089	\$ 6,471,298	\$ 83,664
 <b><u>TOWNS AND CITIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 79,915	\$ 6,689,580	\$ 6,694,192	\$ 75,303
<b><u>Liabilities</u></b>				
Due to other governments	\$ 79,915	\$ 6,689,580	\$ 6,694,192	\$ 75,303
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 30,707,951	\$ 30,707,951	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 30,707,951	\$ 30,707,951	\$ -

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*Statement 1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>NORTHEASTERN WASTE ADVISORY COUNCIL</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 1,192	\$ -	\$ -	\$ 1,192
<b><u>Liabilities</u></b>				
Due to other governments	\$ 1,192	\$ -	\$ -	\$ 1,192
 <b><u>REFUNDING</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 84,840	\$ 3,427,966	\$ 3,488,889	\$ 23,917
<b><u>Liabilities</u></b>				
Accounts payable	\$ 72,588	\$ 3,418,746	\$ 3,476,637	\$ 14,697
Due to other governments	12,252	9,220	12,252	9,220
<b>Total Liabilities</b>	<b>\$ 84,840</b>	<b>\$ 3,427,966</b>	<b>\$ 3,488,889</b>	<b>\$ 23,917</b>
 <b><u>COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 1,897,447	\$ 615,432	\$ 1,056,573	\$ 1,456,306
<b><u>Liabilities</u></b>				
Accounts payable	\$ 2,889	\$ 20,661	\$ 2,889	\$ 20,661
Salaries payable	3,140	3,247	3,140	3,247
Due to other governments	1,891,418	591,524	1,050,544	1,432,398
<b>Total Liabilities</b>	<b>\$ 1,897,447</b>	<b>\$ 615,432</b>	<b>\$ 1,056,573</b>	<b>\$ 1,456,306</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*Statement 1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 2,349,442	\$ 56,142,617	\$ 56,665,173	\$ 1,826,886
<b><u>Liabilities</u></b>				
Accounts payable	\$ 165,292	\$ 7,844,317	\$ 7,891,973	\$ 117,636
Salaries payable	3,140	3,247	3,140	3,247
Due to other governments	2,181,010	48,295,053	48,770,060	1,706,003
<b>Total Liabilities</b>	<b>\$ 2,349,442</b>	<b>\$ 56,142,617</b>	<b>\$ 56,665,173</b>	<b>\$ 1,826,886</b>

**OTHER SCHEDULE**

This page was left blank intentionally.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Schedule 6**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Shared Revenue**

**State**

Highway user tax	\$	3,727,521
County program aid		1,723,363
PERA rate reimbursement		54,851
Disparity reduction aid		373,531
Police aid		102,546
E-911		112,205
Market value credit		1,538,109
Casino revenue aid		14,703

**Total Shared Revenue** **\$ 7,646,829**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$	3,048,576
--	----	-----------

**Payments**

**Local**

Carlton County collaborative	\$	69,074
Household hazardous waste		12,579
Other local governments		123,157

**State**

Payments in lieu of taxes		207,926
---------------------------	--	---------

**Total Payments** **\$ 412,736**

**Grants**

**State**

Minnesota Department of		
Education	\$	15,448
Public Safety		98,801
Transportation		46,475
Health		236,806
Natural Resources		98,319
Human Services		2,355,672
Environmental Assistance		75,649
Pollution Control Agency		5,000
Water and Soil Resources Board		65,690
Peace Officer Standards and Training Board		8,320
Iron Range Resources and Rehabilitation Board		276,238

**Total State** **\$ 3,282,418**

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Schedule 6**  
***(Continued)***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Grants (Continued)**

**Federal**

Department of	
Agriculture	\$ 168,874
Interior	18,232
Justice	45,093
Transportation	251,080
Homeland Security	12,905
Health and Human Services	1,067,024
Environmental Protection Agency	7,714
Elections Assistance Committee	397,696

**Total Federal** **\$ 1,968,618**

**Total State and Federal Grants** **\$ 5,251,036**

**Total Intergovernmental Revenue** **\$ 16,359,177**



This page was left blank intentionally.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*Schedule 7*

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

- A. Our report expresses an adverse opinion on the government-wide financial statements of Carlton County. The opinion is adverse because the County has not reported and depreciated capital assets in the government-wide financial statements and eliminated capital outlay expenditures. The opinion on the financial statements of each major fund and the aggregate remaining fund information is unqualified.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Carlton County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." Two of the significant deficiencies are material weaknesses. The significant deficiencies relating to capital assets and segregation of duties in the County Treasurer's Office are considered to be material weaknesses.
- C. No instances of noncompliance material to the financial statements of Carlton County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Carlton County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:
- |   |              |
|---|--------------|
| Help America Vote Act Grant             | CFDA #90.401 |
| Temporary Assistance for Needy Families | CFDA #93.558 |
| Social Services Block Grant Title XX    | CFDA #93.667 |

- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Carlton County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-11 Capital Assets

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

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

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

*Schedule 7*  
*(Continued)*

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

1. Adopt a capitalization policy that sets a minimum dollar value for an asset to be accounted for on the capital asset system. Determine the useful lives for various classes of assets to be used for depreciation purposes and the general ledger account codes to be used to record capital asset transactions.
2. Identify the information that will need to be captured by a capital asset accounting system and establish a system that will provide the information needed to comply with the reporting requirements of GASB Statement 34.
3. Inventory all capital assets (as defined by GASB Statement 34) owned by the County and assign responsibility for each asset to a particular department head or official. Infrastructure assets are not required to be reported until 2007; however, it may be most efficient to have all assets inventoried and valued at one time.
4. Assign actual or estimated historical cost to each item. Enter the information into the capital asset system.
5. Maintain the capital asset accounting system on a current basis. Procedures will need to be established on how disposals of capital assets will be identified by department heads and how the information will be transmitted to the person responsible for maintaining the capital asset system.
6. Periodically verify departmental inventory by physical inspection.

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

Client's Response:

*The County has contracted with the Government Management Group who will provide assistance to Carlton County in the determination and valuation of the County's capital assets. GMG will also assist the County in the establishment of policies and procedures for the implementation and maintenance of a capital asset management system.*

96-12 Segregation of Duties

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

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

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

Client's Response:

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

96-13 Treasurer's Office Segregation of Duties

County Treasurer's Office personnel are responsible for receipting and depositing cash. They are also responsible for signing checks and for preparing the monthly bank reconciliations. The functions of cash collection and preparation of bank deposits should be segregated from the reconciliation of bank accounts. Without segregation of these functions, it is possible to misappropriate cash receipts or to issue unauthorized checks and cover the misappropriation by adjusting the bank reconciliations.

The County Auditor/Treasurer should review assigned duties and segregate the preparation of the monthly bank reconciliations from the collection of cash. If this is not possible, the County Auditor/Treasurer should review the rotation of duties between Treasurer's Office personnel to insure that the rotation is maximizing internal controls. In addition, a detailed review of the bank reconciliations by the County Auditor/Treasurer on a periodic basis would provide improved control over this function.

Client's Response:

*The Carlton County Auditor/Treasurer is aware of the existing conditions with regard to segregation of duties within the Treasurer's portion of the office. Due to limitations within the offices, we are constantly reviewing the assignment of duties and responsibilities and making the appropriate changes when/where necessary.*

96-18 Jail Canteen Account

The County Sheriff operates a canteen fund to purchase and sell items used by the prisoners in the jail. Revenues received from the sale of items and all purchases of goods for resale are handled through a separate checking account. Starting in 2006, profits from the canteen operation are turned over to the County and recorded on the County's general ledger system, but the remainder of the activity is not accounted for in the County's general ledger system.

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

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

Client's Response:

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

ITEMS ARISING THIS YEAR

06-1 Preparation of Financial Statements

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

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

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

Client's Response:

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

06-2 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect misstatements of the financial statements on a timely basis. Statement on Auditing Standards (SAS) No. 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

During our audit, we identified material adjustments in the Road and Bridge Special Revenue Fund. Receivables were increased by \$373,458 for state-aid highway project allotments. At the fund level, revenue was offset by deferred revenue of \$490,303 for receivables not available during the revenue recognition period.

County officials are aware that audit adjustments are made for the state-aid highway project allotments each year, and they rely on the independent external auditors to assist in making the necessary adjustments in the financial statements. Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

We recommend the County establish internal procedures for analyzing state-aid highway project allotments to ensure they are reported in accordance with GAAP in the County's annual financial statements.

Client's Response:

*The County Auditor's Office staff will work with the accounting staff of the Transportation Department to establish internal procedures for analyzing state-aid highway project allotments to ensure they are reported in accordance with GAAP in the County's annual financial statements.*

06-3 Journal Entries

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

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

We recommend the County Auditor/Treasurer review access to the journal entry function to determine if there is a logical need for that access for all employees who have access. We also recommend a procedure be established to require review and approval of journal entries by someone other than the person making the journal entries. This person should obtain an understanding of the journal entry and its purpose before approval. The approval could be documented by signature on a journal entry form or a printed copy of the journal entry made. Supporting documentation or sufficient explanation should be attached to or included on the journal entry to explain why the journal entry is being made and who is making the journal entry. Journal entries should be filed in a manner that allows for their review should questions arise. A report should be generated from the IFS that lists all journal entries made. The person charged with review and approval of journal entries should periodically review this report. Review of this report would be to ensure that no journal entries have been made which have not been submitted for review and approval.

Client's Response:

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

06-4 Accounting Policies and Procedures Manual

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

An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing,

and improve compliance with established policies. It can also help to prevent deterioration of key elements in the County's internal control system and can help to avoid circumvention of County policies.

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

Client's Response:

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

06-5 Computer Risk Management

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

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

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

Client's Response:

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

PREVIOUSLY REPORTED ITEM RESOLVED

**Inventory Records (99-1)**

The County did not update its inventory records on a timely basis.

**Resolution**

No issues were noted with inventory records during the current audit.

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-3 Electronic Funds Transfers

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

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

Client's Response:

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

96-4      Unclaimed Funds

The Minnesota Unclaimed Property Law requires that uncashed vendor or refund checks be reported to the state after three years. Minn. Stat. §§ 345.41-.43 details the reporting requirements for unclaimed property and its payment to the Commissioner of the Minnesota Department of Commerce. 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. Minn. Stat. § 345.55 states that any person who willfully refuses to pay or deliver abandoned property to the Commissioner under the above-mentioned statute shall be guilty of a gross misdemeanor. Our review of the County's documentation of unclaimed checks reveals the amount of unclaimed checks that have not been turned over to the state to be approximately \$40,000 as of December 31, 2006.

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

Client's Response:

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

04-1      Publication of Financial Statements

Minn. Stat. § 375.17 requires the County to annually publish its financial statements. The County Auditor has not published the financial statements for 2003, 2004, or 2005.

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

Client's Response:

*As required by Minn. Stat. § 375.17, the Carlton County Auditor will ensure that the financial statements for 2003, 2004, and 2005 are published in the County's legal newspaper.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Board of Commissioners Salaries (05-1)**

The County Board did not set its salary prior to the beginning of the year for 2005 and 2006.

**Resolution**

The County Board set its 2007 salary prior to the beginning of the year.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-24

Budgets

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

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

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

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

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

Client's Response:

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

96-25

Travel Policy

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

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

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

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

We recommend the County Board 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.*

96-26

Disaster Recovery Plan

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

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

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

Client's Response:

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

98-7

Contract Change Orders

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

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

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

Client's Response:

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

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

GASB recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the County Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

If applicable for Carlton County, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2007 and 2008, respectively.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

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

Board of County Commissioners  
Carlton County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carlton County as of and for the year ended December 31, 2006, and have issued our report thereon dated November 15, 2007. We have issued an adverse opinion on the government-wide financial statements because Carlton County has not reported capital assets in the Statement of Net Assets and has not reported the related depreciation in the Statement of Activities, as required by generally accepted accounting principles. Also, capital expenditures have not been eliminated from the Statement of Activities. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's internal control that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-11, 96-12, 96-13, 96-18, and 06-1 through 06-5 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 96-11 and 96-13 to be material weaknesses.

### Compliance and Other Matters

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

### Minnesota Legal Compliance

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

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

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

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

Carlton County's written responses to the significant deficiencies, material weaknesses, and legal compliance findings identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

November 15, 2007

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

This page was left blank intentionally.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

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

Board of County Commissioners  
Carlton County

### Compliance

We have audited the compliance of Carlton County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. Carlton County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Carlton County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

### Internal Control Over Compliance

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

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carlton County as of and for the year ended December 31, 2006, and have issued our report thereon dated November 15, 2007. We have issued an adverse opinion on the government-wide financial statements because Carlton County has not reported capital assets in the Statement of Net Assets and has not reported the related depreciation in the Statement of Activities, as required by generally accepted accounting principles. Also, capital expenditures have not been eliminated from the Statement of Activities.

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

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

November 15, 2007

This page was left blank intentionally.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Schedule 8**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Pass-Through Grant Numbers</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>			
Passed Through Carlton, Cook, Lake, and St. Louis County Community Health Board Special Supplemental Nutrition Program for Women, Infants, and Children		10.557	\$ 157,845
Passed Through Minnesota Department of Human Services Matching Grant for Food Stamp Program		10.561	11,029
<b>Total U.S. Department of Agriculture</b>			<b>\$ 168,874</b>
<b>U.S. Department of the Interior</b>			
Passed Through Minnesota Department of Natural Resources State Wildlife Grants		15.634	<b>\$ 18,232</b>
<b>U.S. Department of Justice</b>			
Passed Through Minnesota Department of Employment and Economic Development Juvenile Accountability Incentive Block Grant		16.523	\$ 12,602
Passed Through Minnesota Department of Public Safety Victims of Crime Act		16.575	24,511
Bulletproof Vest Partnership Grant Act		16.607	7,980
<b>Total U.S. Department of Justice</b>			<b>\$ 45,093</b>
<b>U.S. Department of Transportation</b>			
Passed Through Minnesota Department of Transportation Airport Improvement Program		20.106	\$ 79,213
Highway Planning and Construction		20.205	4,319
State and Community Highway Safety		20.600	13,038
<b>Total U.S. Department of Transportation</b>			<b>\$ 96,570</b>
<b>U.S. Environmental Protection Agency</b>			
Passed Through Minnesota Pollution Control Agency MPCA Open Burning Grant		66.469	<b>\$ 7,714</b>
<b>U.S. Election Assistance Commission</b>			
Passed Through Minnesota Secretary of State Help America Vote Grant		90.401	<b>\$ 360,181</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Pass-Through Grant Numbers</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services</b>			
Passed Through Arrowhead Regional Development Commission National Family Caregiver Support		93.052	\$ 23,277
Passed Through Minnesota Department of Education Child Care Mandatory and Matching Funds		93.596	21,889
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families		93.556	10,672
Temporary Assistance for Needy Families (TANF)		93.558	280,123
Foster Care Title IV-E		93.658	311,299
Social Services Block Grant Title XX		93.667	291,171
Support for Emancipation and Living Functionally		93.674	8,507
Mental Health Block Grant		93.958	19,332
Public Health Preparedness Grant		93.283	63,337
Maternal and Child Health Services Block Grant		93.994	37,417
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 1,067,024</b>
<b>U.S. Department of Homeland Security</b>			
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants		97.042	\$ 12,905
<b>Total Federal Awards</b>			<b>\$ 1,776,593</b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Carlton County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. Expenditures on this schedule differ from federal revenues reported in the financial statements because of modified accrual revenue recognition. In 2006, there were \$121,795 of receivables not recognized as revenue because period of availability criteria had not been met and \$276,305 of prior year deferred revenue which became available. In addition, \$37,515 of current year federal revenues for CFDA No. 90.401 were not recognized as expenditures because they had not been spent by year-end.
4. Pass-through grant numbers were not assigned by the pass-through agencies.
5. Carlton County did not pass any federal awards to subrecipients.