

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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

FOR YEAR ENDED DECEMBER 31, 2004

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

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

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

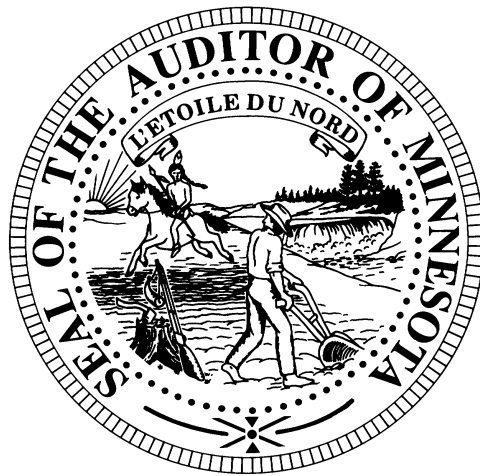
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**For Year Ended December 31, 2004**



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

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**ORGANIZATION  
AS OF DECEMBER 31, 2004**

			<u>Term Expires</u>
<b>Elected</b>			
<b>Commissioners</b>			
Chair	Melvin Tan	District 3	January 2007
Board Member	Dick Brenner	District 1	January 2005
Board Member	Frank Liupakka	District 2	January 2007
Board Member	Gordon Aanerud	District 4	January 2005
Board Member	Ted Pihlman	District 5	January 2005
Attorney	Marvin Ketola		January 2005
Auditor/Treasurer	Paul Gassert		January 2007
Coroner	Ricard Puumala, M.D.		January 2007
Sheriff	Kevin Mangan		April 2005
<b>Appointed</b>			
Assessor	Dale Smith		January 2009
Recorder	Kristine Basilici		December 2006
Registrar of Titles	Kristine Basilici		December 2006
Court Administrator	Bruce Ahlgren		Indefinite
Examiner of Titles	John Gassert		Indefinite
Highway Engineer	Wayne Olson		May 2005
Veterans Service Officer	Duane Brownie		January 2007
Surveyor	William Hayden		December 2004

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PATRICIA ANDERSON  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Carlton County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carlton County, Minnesota, as of and for the year ended December 31, 2004, 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, 2004, 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, 2004, 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 listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has 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 October 11, 2005, 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/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: October 11, 2005

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

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2004  
(Unaudited)**

Carlton County's Management's Discussion and Analysis provides an overview of the County's financial activities for the fiscal year ended December 31, 2004. 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 \$13,294,623 of which \$5,053,982 is restricted to specific purposes.
- Carlton County's governmental activities' net assets decreased by \$977,972 for the year ended December 31, 2004.
- The net cost of governmental activities was \$17,481,310 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$16,503,338.
- Governmental funds' fund balances decreased by \$2,555,306. Most of the decrease was due to payment of construction costs for the new Transportation Building.
- 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, human services, health, environmental services, culture and recreation, and conservation of natural resources. 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 below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County’s governmental activities.

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

	<u>2004</u>	<u>2003</u>
Assets	\$ 24,207	\$ 24,686
Long-term debt outstanding	\$ (7,993)	\$ (8,601)
Other liabilities	<u>(2,919)</u>	<u>(1,813)</u>
Total Liabilities	<u>\$ (10,912)</u>	<u>\$ (10,414)</u>
Net Assets		
Restricted	\$ 5,054	\$ 6,514
Unrestricted	<u>8,241</u>	<u>7,758</u>
Total Net Assets	<u><u>\$ 13,295</u></u>	<u><u>\$ 14,272</u></u>

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

	<u>2004</u>	<u>2003</u>
<b>Revenues</b>		
Program revenues		
Fees, fines, charges and other	\$ 4,896	\$ 4,849
Operating grants and contributions	11,711	12,673
Capital grants and contributions	2,469	2,161
General revenues		
Property taxes	12,123	11,951
Other taxes	192	245
Grants and contributions	3,573	3,507
Other general revenues	616	431
<b>Total Revenues</b>	<u>\$ 35,580</u>	<u>\$ 35,817</u>
<b>Program expenses</b>		
General government	\$ 5,578	\$ 5,399
Public safety	5,219	5,203
Culture and recreation	307	374
Highways and streets	11,130	8,991
Human services	9,286	10,153
Health	2,146	1,727
Sanitation	1,196	1,093
Conservation of natural resources	731	769
Economic development	754	335
Interest	210	113
<b>Total Expenses</b>	<u>\$ 36,557</u>	<u>\$ 34,157</u>
<b>Increase (Decrease) in Net Assets</b>	<u>\$ (977)</u>	<u>\$ 1,660</u>
<b>Net Assets, January 1</b>	<u>14,272</u>	<u>12,612</u>
<b>Net Assets, December 31</b>	<u>\$ 13,295</u>	<u>\$ 14,272</u>

### **Governmental Activities**

The cost of all governmental activities this year was \$36,557,083. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$12,122,537 because some of the cost was paid by those who directly benefited from the programs (\$4,896,093) or by other governments and organizations that subsidized certain programs with grants and contributions (\$14,179,680).

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	
	2004	2003	2004	2003
Highways and streets	\$ 11,130	\$ 8,991	\$ 5,948	\$ 3,850
Human services	9,286	10,153	1,940	2,125
General government	5,578	5,399	4,186	3,851
Public safety	5,219	5,203	4,420	4,243
Health	2,146	1,727	971	272
All others	3,198	2,684	16	133
<b>Totals</b>	<b>\$ 36,557</b>	<b>\$ 34,157</b>	<b>\$ 17,481</b>	<b>\$ 14,474</b>

## THE COUNTY’S FUNDS

As the County completed the year, its governmental funds reported a combined fund balance of \$17,007,589, which is less than last year’s total of \$19,559,771. Included in this year’s total fund balance is a surplus of \$8,450,251 in the County’s General Fund. The overall decrease in the governmental funds was due to the substantial completion of the Transportation Building which decreased the Capital Projects Fund by \$3,730,885.

### General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) for the County’s General Fund exceeded the final budget by \$882,722. The largest variances were in solid waste, county extension and economic development.

On the other hand, resources available for appropriation exceeded the final budget for the County’s General Fund by \$1,392,328. Collections were greater than expected in intergovernmental revenues and charges for services.

Fund balance was anticipated to increase by \$98,470. Actual fund balance increased by \$609,916 due to the net excess collections.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2004, 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 \$5,640,000 outstanding in general obligation bonds, backed by the County, versus \$6,185,000 last year.

The County did not issue bonds during 2004. Principal and interest payments on all bonds and notes will not exceed the amount allowed by Minn. Stat. § 373.40.

Other obligations include loans payable and accrued vacation pay and sick leave payable.

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

The County's elected and appointed officials considered many factors when setting the fiscal year 2005 budget and tax levy.

- The State of Minnesota will take over the operation of the court systems in the Sixth Judicial District effective July 1, 2005. This will result in a net loss of state aid to the County since the County's net cost of operating its court system is less than the loss of the temporary court aid established by the legislature.
- Wage increases were budgeted after a two-year wage freeze.
- Utility and property insurance costs were increased for the new Transportation Building.
- Property/Casualty, Workers' Compensation and Employee Health insurance are expected to increase 8 percent to 10 percent for 2005.
- Property tax levies have increased 8.34 percent for 2005.

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

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

## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2004**

**Assets**

Cash and pooled investments	\$ 14,862,153
Receivables - net	8,411,825
Inventories	401,877
Prepaid items	461,619
Deferred charges	69,930
	<hr/>
<b>Total Assets</b>	<b>\$ 24,207,404</b>

**Liabilities**

Accounts payable and other current liabilities	\$ 2,742,810
Accrued interest payable	58,247
Unearned revenue	118,185
Long-term liabilities	
Due within one year	451,313
Due in more than one year	7,542,226
	<hr/>
<b>Total Liabilities</b>	<b>\$ 10,912,781</b>

**Net Assets**

Restricted for	
General government	\$ 99,881
Public safety	34,583
Highways and streets	2,241,260
Sanitation	42,083
Conservation of natural resources	110,266
Economic development	2,485,570
Capital projects	40,339
Unrestricted	8,240,641
	<hr/>
<b>Total Net Assets</b>	<b>\$ 13,294,623</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	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><u>Functions/Programs</u></b>					
<b>Governmental activities</b>					
General government	\$ 5,577,939	\$ 1,021,237	\$ 370,920	\$ -	\$ (4,185,782)
Public safety	5,218,477	234,486	508,784	55,063	(4,420,144)
Highways and streets	11,129,638	604,464	2,679,029	1,898,181	(5,947,964)
Sanitation	1,195,725	773,166	645,417	-	222,858
Human services	9,286,443	644,653	6,702,171	-	(1,939,619)
Health	2,146,254	607,938	567,148	-	(971,168)
Culture and recreation	307,383	17,382	81,424	-	(208,577)
Conservation of natural resources	731,306	859,154	109,451	-	237,299
Economic development	754,193	133,613	46,438	515,654	(58,488)
Interest	209,725	-	-	-	(209,725)
<b>Total governmental activities</b>	<b><u>\$ 36,557,083</u></b>	<b><u>\$ 4,896,093</u></b>	<b><u>\$ 11,710,782</u></b>	<b><u>\$ 2,468,898</u></b>	<b><u>\$ (17,481,310)</u></b>
<b>General Revenues</b>					
Property taxes					\$ 12,122,537
Mortgage registry and deed tax					33,706
Tax increment					24,406
Payments in lieu of tax					134,399
Grants and contributions not restricted to specific programs					3,572,674
Unrestricted investment earnings					323,169
Miscellaneous					292,447
<b>Total general revenues</b>					<b><u>\$ 16,503,338</u></b>
<b>Change in net assets</b>					<b><u>\$ (977,972)</u></b>
<b>Net Assets - Beginning</b>					<b><u>14,272,595</u></b>
<b>Net Assets - Ending</b>					<b><u>\$ 13,294,623</u></b>

**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2004**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 7,026,859	\$ 2,079,915
Petty cash and change funds	1,575	-
Undistributed cash in agency funds	31,380	-
Taxes receivable		
Delinquent	243,453	68,214
Special assessments receivable		
Delinquent	32,114	-
Accounts receivable	146,798	5,785
Accrued interest receivable	90,582	-
Due from other funds	147,762	48,195
Due from other governments	495,700	3,998,737
Inventories	-	401,877
Prepaid items	442,127	-
Loans receivable	896,058	-
MCCF deposit receivable	100,000	-
	<b>\$ 9,654,408</b>	<b>\$ 6,602,723</b>
<b>Total Assets</b>	<b>\$ 9,654,408</b>	<b>\$ 6,602,723</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>
\$ 4,429,121	\$ 551,872	\$ 117,232	\$ 620,249	\$ 14,825,248
3,950	-	-	-	5,525
-	-	-	-	31,380
107,741	-	-	22,333	441,741
-	-	-	-	32,114
110,162	715,538	-	-	978,283
-	-	-	-	90,582
-	-	438,250	-	634,207
1,378,610	-	-	-	5,873,047
-	-	-	-	401,877
19,492	-	-	-	461,619
-	-	-	-	896,058
-	-	-	-	100,000
<b><u>\$ 6,049,076</u></b>	<b><u>\$ 1,267,410</u></b>	<b><u>\$ 555,482</u></b>	<b><u>\$ 642,582</u></b>	<b><u>\$ 24,771,681</u></b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2004**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Liabilities and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 119,536	\$ 121,048
Salaries payable	374,484	122,964
Contracts payable	99,279	484,303
Due to other funds	84,221	-
Due to other governments	64,729	-
Deferred revenue - unavailable	424,279	3,252,225
Deferred revenue - unearned	37,629	-
	<b>\$ 1,204,157</b>	<b>\$ 3,980,540</b>
<b>Fund Balances</b>		
Reserved for		
Inventories	\$ -	\$ 401,877
Economic development	1,531,595	-
Loans receivable	896,058	-
Prepaid items	442,127	-
Missing heirs	5,522	-
Law library	56,353	-
Recorder's equipment	1,876	-
Sheriff's contingency	3,772	-
Sheriff's gun permit fee	19,672	-
Sheriff's forfeited property	11,139	-
Attorney forfeited property	36,130	-
Timber development	110,266	-
MCCF deposit	100,000	-
Town roads	-	165,892
Unreserved		
Designated for capital improvements	-	-
Designated for petty cash funds	1,575	-
Undesignated	5,234,166	2,054,414
Unreserved, reported in nonmajor		
Debt service fund	-	-
	<b>\$ 8,450,251</b>	<b>\$ 2,622,183</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 9,654,408</b>	<b>\$ 6,602,723</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>
\$ 275,801	\$ 18,712	\$ 85,218	\$ -	\$ 620,315
294,491	7,580	-	-	799,519
-	-	429,925	-	1,013,507
48,991	500,995	-	-	634,207
150,947	93,793	-	-	309,469
89,224	484,847	-	18,315	4,268,890
80,556	-	-	-	118,185
<b>\$ 940,010</b>	<b>\$ 1,105,927</b>	<b>\$ 515,143</b>	<b>\$ 18,315</b>	<b>\$ 7,764,092</b>
\$ -	\$ -	\$ -	\$ -	\$ 401,877
-	-	-	-	1,531,595
-	-	-	-	896,058
-	-	-	-	442,127
-	-	-	-	5,522
-	-	-	-	56,353
-	-	-	-	1,876
-	-	-	-	3,772
-	-	-	-	19,672
-	-	-	-	11,139
-	-	-	-	36,130
-	-	-	-	110,266
-	-	-	-	100,000
-	-	-	-	165,892
-	-	40,339	-	40,339
-	-	-	-	1,575
5,109,066	161,483	-	-	12,559,129
-	-	-	624,267	624,267
<b>\$ 5,109,066</b>	<b>\$ 161,483</b>	<b>\$ 40,339</b>	<b>\$ 624,267</b>	<b>\$ 17,007,589</b>
<b>\$ 6,049,076</b>	<b>\$ 1,267,410</b>	<b>\$ 555,482</b>	<b>\$ 642,582</b>	<b>\$ 24,771,681</b>

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2004**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$ 17,007,589</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	4,268,890
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
General obligation bonds	\$ (5,640,000)
Loans payable	(319,547)
Compensated absences	(2,033,992)
Accrued interest payable	(58,247)
Deferred debt issuance charges	69,930
	<u>(7,981,856)</u>
<b>Net assets of governmental activities (Exhibit 1)</b>	<b><u>\$ 13,294,623</u></b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<b>General</b>	<b>Road and Bridge</b>
<b>Revenues</b>		
Taxes	\$ 6,933,932	\$ 1,771,822
Special assessments	545,413	-
Licenses and permits	111,471	-
Intergovernmental	3,730,187	3,861,696
Charges for services	1,819,589	514,076
Fines and forfeits	302,028	-
Gifts and contributions	11,664	-
Interest on investments	284,330	-
Miscellaneous	361,327	192,004
	<b>\$ 14,099,941</b>	<b>\$ 6,339,598</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 5,548,794	\$ -
Public safety	5,179,939	-
Highways and streets	-	6,461,827
Sanitation	1,195,725	-
Human services	-	-
Health	-	-
Culture and recreation	307,383	-
Conservation of natural resources	473,678	-
Economic development	754,193	-
<b>Capital outlay</b>	-	-
<b>Debt service</b>		
Principal retirement	85,808	-
Interest	1,345	-
Administrative charge	-	-
	<b>\$ 13,546,865</b>	<b>\$ 6,461,827</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 553,076</b>	<b>\$ (122,229)</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ 56,840	\$ -
Transfers out	-	-
	<b>\$ 56,840</b>	<b>\$ -</b>
<b>Net Change in Fund Balances</b>	<b>\$ 609,916</b>	<b>\$ (122,229)</b>
<b>Fund Balance - January 1</b>	<b>7,840,335</b>	<b>2,741,288</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>3,124</b>
	<b>\$ 8,450,251</b>	<b>\$ 2,622,183</b>
<b>Fund Balance - December 31</b>	<b>\$ 8,450,251</b>	<b>\$ 2,622,183</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>
\$ 2,838,229	\$ 92,712	\$ -	\$ 566,573	\$ 12,203,268
-	-	-	-	545,413
-	-	-	-	111,471
8,152,805	5,756	495,000	87,403	16,332,847
330,594	-	-	-	2,664,259
-	-	-	-	302,028
2,262	-	-	-	13,926
589	-	38,250	-	323,169
921,997	587,880	-	-	2,063,208
<b>\$ 12,246,476</b>	<b>\$ 686,348</b>	<b>\$ 533,250</b>	<b>\$ 653,976</b>	<b>\$ 34,559,589</b>
\$ -	\$ 24,360	\$ -	\$ -	\$ 5,573,154
-	-	-	-	5,179,939
-	-	-	-	6,461,827
-	-	-	-	1,195,725
9,312,231	-	-	-	9,312,231
2,146,254	-	-	-	2,146,254
-	-	-	-	307,383
-	258,665	-	-	732,343
-	-	-	-	754,193
-	-	4,664,135	-	4,664,135
-	-	-	545,000	630,808
-	-	-	153,931	155,276
-	-	-	1,627	1,627
<b>\$ 11,458,485</b>	<b>\$ 283,025</b>	<b>\$ 4,664,135</b>	<b>\$ 700,558</b>	<b>\$ 37,114,895</b>
<b>\$ 787,991</b>	<b>\$ 403,323</b>	<b>\$ (4,130,885)</b>	<b>\$ (46,582)</b>	<b>\$ (2,555,306)</b>
\$ -	\$ -	\$ 400,000	\$ -	\$ 456,840
-	(456,840)	-	-	(456,840)
<b>\$ -</b>	<b>\$ (456,840)</b>	<b>\$ 400,000</b>	<b>\$ -</b>	<b>\$ -</b>
<b>\$ 787,991</b>	<b>\$ (53,517)</b>	<b>\$ (3,730,885)</b>	<b>\$ (46,582)</b>	<b>\$ (2,555,306)</b>
<b>4,321,075</b>	<b>215,000</b>	<b>3,771,224</b>	<b>670,849</b>	<b>19,559,771</b>
-	-	-	-	3,124
<b>\$ 5,109,066</b>	<b>\$ 161,483</b>	<b>\$ 40,339</b>	<b>\$ 624,267</b>	<b>\$ 17,007,589</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, 2004**

**Net change in fund balances - total governmental funds (Exhibit 5)** **\$ (2,555,306)**

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	\$ 4,268,890	
Deferred revenue - January 1	(3,249,368)	1,019,522

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	\$ 545,000	
Loans payable	42,833	
Capital lease	42,975	630,808

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	\$ (45,750)	
Amortization of deferred issuance charges	(7,072)	
Change in compensated absences	(23,298)	
Change in inventories	3,124	(72,996)

**Change in net assets of governmental activities (Exhibit 2)** **\$ (977,972)**

CARLTON COUNTY  
CARLTON, MINNESOTA

EXHIBIT 7

FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
DECEMBER 31, 2004

	<u>Agency</u>
<b><u>Assets</u></b>	
Cash and cash equivalents	\$ 1,973,946
Receivables	
Accounts	<u>75,407</u>
<b>Total Assets</b>	<b><u>\$ 2,049,353</u></b>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 31,452
Salaries payable	4,910
Due to other governments	<u>2,012,991</u>
<b>Total Liabilities</b>	<b><u>\$ 2,049,353</u></b>

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. 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 No. 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 which are described in Note 5.C.

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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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 that are 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 that are 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.

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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 non-major 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.

The County reports the following non-major governmental fund:

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fiduciary fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2004, 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 2004 were \$284,330.

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, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

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;

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

- (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.

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 non-current portion of interfund loans).

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

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on 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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

3. Inventories and Prepaid Items

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

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

4. Capital Assets

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

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

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Compensated Absences (Continued)

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.

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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

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, 2004:

	Budget	Expenditures	Excess
General Fund	\$ 12,664,143	\$ 13,546,865	\$ 882,722
Forfeited Tax Special Revenue Fund	208,937	283,025	74,088
Debt Service Fund	650,344	700,558	50,214

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments are reported as follows:

Governmental funds		
Cash and pooled investments	\$	14,862,153
Fiduciary funds		
Cash and pooled investments		1,973,946
Total Cash and Investments	\$	16,836,099

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$68,958. The bank balance deposit amount was \$71,570. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	<u>\$ 71,570</u>
Total Covered Deposits	<u><u>\$ 71,570</u></u>

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

- (1) securities that are insured or registered, or for which the securities are held by the County or its agent in the County's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the County's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the County's name.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Following is a summary of the fair values of the County's investments, categorized into the aforementioned levels of risk, at December 31, 2004:

	Category			Fair Value
	1	2	3	
U.S. government securities	\$ 435,091	\$ -	\$ 938,370	\$ 1,373,461
Negotiable certificates of deposit	64,909	-	5,474,991	5,539,900
Commercial paper	500,000	-	5,487,179	5,987,179
Total Investments	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ 11,900,540</u>	\$ 12,900,540
Add				
Petty cash and change funds (MAGIC)				5,525
Deposits				3,861,076
				<u>68,958</u>
Total Cash and Investments				<u>\$ 16,836,099</u>

2. Receivables

Receivables as of December 31, 2004, year-end for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 441,741	\$ -
Special assessments	32,114	-
Due from other governments	5,873,047	-
Accounts	978,283	54,104
Interest	90,582	-
Loans receivable	896,058	775,524
MCCF deposit receivable	100,000	100,000
Total Governmental Activities	<u>\$ 8,411,825</u>	<u>\$ 929,628</u>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2004, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Forfeited Tax Special Revenue	\$ 98,771	Forfeited tax apportionment and payment of fees Reimburse services
	Human Services	<u>48,991</u>	
Total Due to General Fund		<u>\$ 147,762</u>	
Road and Bridge	General	\$ 45,971	Reimburse supplies and services Reimburse supplies and services
	Forfeited Tax Special Revenue	<u>2,224</u>	
Total Due to Road and Bridge Fund		<u>\$ 48,195</u>	
Capital Projects	General	\$ 38,250	Allocation of interest Reimburse construction expense
	Forfeited Tax Special Revenue	<u>400,000</u>	
Total Due to Capital Projects Fund		<u>\$ 438,250</u>	
Total Due To/From Other Funds		<u><u>\$ 634,207</u></u>	

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

Transfers to General Fund from Forfeited Tax Fund	\$ 56,840	Distribute net proceeds
Transfers to Capital Projects Fund from Forfeited Tax Fund	<u>400,000</u>	Reimburse construction expenses
Total Interfund Transfers	<u><u>\$ 456,840</u></u>	

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

	Governmental Activities
Accounts	\$ 620,315
Salaries	799,519
Contracts	1,013,507
Due to other governments	309,469
Total Payables	\$ 2,742,810

2. Construction Commitments

As of December 31, 2004, the County has an active construction project with the construction of their new Highway Department Maintenance Facility. This project includes the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Capital Projects	\$ 3,953,317	\$ 240,492

3. 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 32 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 2004, the County expended \$219,971 for these benefits.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Long-Term Debt

Bonds Payable

Bonds payments are typically made for the debt service funds. Information on individual bonds payable follow:

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
General Obligation Bonds					
1998 G.O. Capital Improvement Bonds	2013	\$25,000 - \$80,000	3.70 - 4.60	\$ 650,000	\$ 515,000
2002 G.O. Refunding Bonds	2011	\$195,000 - \$205,000	1.60 - 3.45	1,510,000	1,145,000
2003 G.O. Refunding Bonds	2007	\$130,000 - \$140,000	1.25 - 2.00	405,000	275,000
2003 G.O. Capital Improvement Bonds	2023	\$60,000 - \$290,000	1.50 - 4.35	3,900,000	3,705,000
Total General Obligation Bonds				<u>\$ 6,465,000</u>	<u>\$ 5,640,000</u>

Loans Payable

In 1995, the County entered into a loan agreement with the State of Minnesota to finance a hangar at the Cloquet airport. The loan is an interest-free loan payable from the General Fund.

In 1998, the County entered into a loan agreement with the Minnesota Department of Agriculture for financing of failing septic systems. The loan is secured by special assessments placed on the individual parcels requesting repair of a failing septic system.

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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Long-Term Debt

Loans Payable (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
1998 septic loans	2015		0.00	\$ 50,000	\$ 50,000
2003 tee hangar loan - Cloquet	2013	\$1,834/month	0.00	220,082	188,904
2003 tee hangar loan - Moose Lake	2013	\$775/month	0.00	93,050	80,643
Total Loans Payable				<u>\$ 363,132</u>	<u>\$ 319,547</u>

5. Debt Service Requirements

Debt service requirements at December 31, 2004, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		Loans	
	Principal	Interest	Principal	Interest
2005	\$ 420,000	\$ 201,420	\$ 31,313	\$ -
2006	435,000	192,062	31,313	-
2007	305,000	180,776	31,313	-
2008	425,000	169,502	31,313	-
2009	430,000	155,681	31,313	-
2010 - 2014	1,390,000	575,758	112,982	-
2015 - 2019	1,140,000	352,317	50,000	-
2020 - 2023	1,095,000	96,967	-	-
Total	<u>\$ 5,640,000</u>	<u>\$ 1,924,483</u>	<u>\$ 319,547</u>	<u>\$ -</u>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 6,185,000	\$ -	\$ 545,000	\$ 5,640,000	\$ 420,000
Capital leases	42,975	-	42,975	-	-
Loans payable	362,380	-	42,833	319,547	31,313
Compensated absences	2,010,694	23,298	-	2,033,992	-
Governmental Activities Long-Term Liabilities	<u>\$ 8,601,049</u>	<u>\$ 23,298</u>	<u>\$ 630,808</u>	<u>\$ 7,993,539</u>	<u>\$ 451,313</u>

The County has covenanted to provide ongoing disclosure of certain annual financial information and operating data with respect to the County, including audited financial statements of the County. The County's ongoing disclosures are with respect to the General Obligation Capital Improvement Plan Bonds, Series 2003, December 1, 2003.

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. Pension Plans

A. Plan Description (Continued)

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.

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 Employee 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.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. Pension Plans

A. Plan Description (Continued)

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 web at [mnpera.org](http://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.

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 are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary. 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:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
Public Employees Police and Fire Fund	9.30
Public Employees Correctional Fund	8.75

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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4. Pension Plans

B. Funding Policy (Continued)

The County's contributions for the years ending December 31, 2004, 2003, and 2002, 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
2004	\$ 563,716	\$ 115,067	\$ 52,052
2003	571,296	117,614	47,884
2002	553,597	110,433	52,352

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

5. 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 the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

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

B. Contingent Liabilities

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

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

C. Joint Ventures

Arrowhead Regional Corrections

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Arrowhead Regional Corrections (Continued)

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

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

Arrowhead Regional Corrections is financed through state grants and contributions from the participating counties. During 2004, County contributions were in the following proportion:

Carlton County	8.91%
Cook County	1.38
Koochiching County	1.76
Lake County	2.05
St. Louis County	<u>85.90</u>
Total	<u><u>100.00%</u></u>

Below is a summary of the financial information from Arrowhead Regional Corrections' government-wide financial statements for the year ended December 31, 2004.

Total Assets	\$ 10,654,026
Total Liabilities	3,962,002
Total Net Assets	6,692,024
Total Revenues	17,221,508
Total Expenses	16,931,713
Change in Net Assets	289,795

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Arrowhead Regional Corrections (Continued)

The total assets balance included \$6,620,757 of capital assets - net of accumulated depreciation. The total liabilities balance included \$3,480,235 in long-term liabilities.

Carlton County provided \$889,505 in funding during 2004. 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.

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, 2004, is accounted for in an agency fund of Carlton County.

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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 2004.

At December 31, 2004, the Community Health Services Board's summary of financial information was:

Total Assets	\$	587,760
Total Liabilities		498,765
Total Net Assets		88,995
Total Revenues		3,997,895
Total Expenses		3,983,962
Change in Net Assets		13,933

Separate financial information can be obtained from:

Carlton, Cook, Lake and St. Louis Counties  
Community Health Board  
325 South Lake Avenue  
Duluth, Minnesota 55802

Northeast Minnesota Office of Job Training

Aitkin, Carlton, Cook, Itasca, Koochiching, Lake, and St. Louis Counties (excluding the City of Duluth) entered into a joint powers agreement pursuant to Minn. Stat. § 471.59 for the purpose of developing and implementing a private and public job training program. The United States Congress, through the Job Training Partnership Act of 1982, authorized states to establish "service delivery areas" to provide programs to achieve full employment through the use of grants. The counties identified above are

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

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.

At fiscal year-end June 30, 2004, the Northeast Minnesota Office of Job Training had assets of \$1,382,550 and long-term debt of \$758,370. The change in net assets was \$394,478 for the year ended June 30, 2004.

Separate financial information can be obtained from:

Northeast Minnesota Office of Job Training  
820 North Ninth Street  
Suite 200  
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.

MCIS is governed by an 11-member board. Each participating county appoints a member. Financing is obtained through user charges to the members. Cass County is the fiscal agent for MCIS.

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

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Minnesota Counties Information Systems (Continued)

A summary of the financial information of MCIS at December 31, 2002 (the most recent information available) was:

Total Assets	\$	555,861
Total Liabilities		244,987
Total Fund Equity		310,874
Total Revenues		1,728,440
Total Expenditures		1,771,971
Increase (Decrease) In Fund Balance		(43,531)

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.

D. 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.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Schedule 1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Taxes	\$ 6,825,586	\$ 6,825,586	\$ 6,933,932	\$ 108,346
Special assessments	390,000	390,000	545,413	155,413
Licenses and permits	94,275	94,275	111,471	17,196
Intergovernmental	3,047,440	3,047,440	3,730,187	682,747
Charges for services	1,549,500	1,549,500	1,819,589	270,089
Fines and forfeits	246,350	246,350	302,028	55,678
Gifts and contributions	500	500	11,664	11,164
Investment earnings	250,000	250,000	284,330	34,330
Miscellaneous	303,962	303,962	361,327	57,365
<b>Total Revenues</b>	<b>\$ 12,707,613</b>	<b>\$ 12,707,613</b>	<b>\$ 14,099,941</b>	<b>\$ 1,392,328</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 236,474	\$ 236,474	\$ 235,657	\$ 817
Courts	923,428	923,428	924,684	(1,256)
Law library	25,000	25,000	28,174	(3,174)
County auditor	796,726	796,726	784,131	12,595
License bureau	224,459	224,459	229,358	(4,899)
County assessor	635,823	635,823	655,995	(20,172)
Data processing	485,651	485,651	459,528	26,123
Personnel	134,307	134,307	129,472	4,835
Attorney	714,457	714,457	798,003	(83,546)
Recorder	383,431	383,431	358,636	24,795
Surveyor	15,000	15,000	15,000	-
Planning and zoning	284,570	284,570	285,495	(925)
Maintenance	492,524	492,524	479,493	13,031
Veterans service officer	136,655	136,655	165,168	(28,513)
<b>Total general government</b>	<b>\$ 5,488,505</b>	<b>\$ 5,488,505</b>	<b>\$ 5,548,794</b>	<b>\$ (60,289)</b>
<b>Public safety</b>				
Sheriff	\$ 2,133,173	\$ 2,133,173	\$ 2,242,130	\$ (108,957)
Snowmobile safety	5,000	5,000	3,900	1,100
Boat and water safety	15,000	15,000	14,364	636
Ambulance	61,920	61,920	61,920	-
Animal control	2,835	2,835	2,835	-
Coroner	36,400	36,400	44,406	(8,006)
E-911	666,836	666,836	562,306	104,530
County jail	1,244,985	1,244,985	1,295,814	(50,829)
Community corrections	807,665	807,665	889,505	(81,840)
Civil defense	33,424	33,424	62,759	(29,335)
<b>Total public safety</b>	<b>\$ 5,007,238</b>	<b>\$ 5,007,238</b>	<b>\$ 5,179,939</b>	<b>\$ (172,701)</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Sanitation</b>				
Solid waste	\$ 873,549	\$ 873,549	\$ 1,025,845	\$ (152,296)
Recycling	169,927	169,927	169,880	47
<b>Total sanitation</b>	<b>\$ 1,043,476</b>	<b>\$ 1,043,476</b>	<b>\$ 1,195,725</b>	<b>\$ (152,249)</b>
<b>Culture and recreation</b>				
Historical society	\$ 33,337	\$ 33,337	\$ 33,337	\$ -
County fair	31,590	31,590	31,590	-
Parks	64,560	64,560	66,309	(1,749)
Regional library	94,723	94,723	94,723	-
Trails	-	-	81,424	(81,424)
<b>Total culture and recreation</b>	<b>\$ 224,210</b>	<b>\$ 224,210</b>	<b>\$ 307,383</b>	<b>\$ (83,173)</b>
<b>Conservation of natural resources</b>				
County extension	\$ 145,065	\$ 145,065	\$ 283,998	\$ (138,933)
Soil and water conservation	69,238	69,238	73,238	(4,000)
Weed inspector	6,010	6,010	5,127	883
Forestry assistance	8,000	8,000	20,930	(12,930)
Timber development	-	-	365	(365)
Resource development	33,300	33,300	30,546	2,754
Water planning	88,198	88,198	59,474	28,724
<b>Total conservation of natural resources</b>	<b>\$ 349,811</b>	<b>\$ 349,811</b>	<b>\$ 473,678</b>	<b>\$ (123,867)</b>
<b>Economic development</b>				
Airport commission	\$ 545,903	\$ 545,903	\$ 623,243	\$ (77,340)
Rail authority	5,000	5,000	5,476	(476)
Iron Range Resources and Rehabilitation	-	-	125,474	(125,474)
<b>Total economic development</b>	<b>\$ 550,903</b>	<b>\$ 550,903</b>	<b>\$ 754,193</b>	<b>\$ (203,290)</b>
<b>Debt service</b>				
Principal retirement	\$ -	\$ -	\$ 85,808	\$ (85,808)
Interest	-	-	1,345	(1,345)
<b>Total Expenditures</b>	<b>\$ 12,664,143</b>	<b>\$ 12,664,143</b>	<b>\$ 13,546,865</b>	<b>\$ (882,722)</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*Schedule 1*  
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Excess of Revenues Over (Under) Expenditures</b>	\$ 43,470	\$ 43,470	\$ 553,076	\$ 509,606
<b>Other Financing Sources (Uses)</b>				
Transfers in	55,000	55,000	56,840	1,840
<b>Net Change in Fund Balance</b>	\$ 98,470	\$ 98,470	\$ 609,916	\$ 511,446
<b>Fund Balance - January 1</b>	7,840,335	7,840,335	7,840,335	-
<b>Fund Balance - December 31</b>	<u>\$ 7,938,805</u>	<u>\$ 7,938,805</u>	<u>\$ 8,450,251</u>	<u>\$ 511,446</u>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,746,986	\$ 1,746,986	\$ 1,771,822	\$ 24,836
Intergovernmental	4,594,276	4,594,276	3,861,696	(732,580)
Charges for services	222,000	222,000	514,076	292,076
Miscellaneous	229,522	229,522	192,004	(37,518)
<b>Total Revenues</b>	<b>\$ 6,792,784</b>	<b>\$ 6,792,784</b>	<b>\$ 6,339,598</b>	<b>\$ (453,186)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 387,987	\$ 387,987	\$ 457,249	\$ (69,262)
Maintenance	2,126,025	2,126,025	2,565,803	(439,778)
Construction	3,598,713	3,598,713	2,588,666	1,010,047
Equipment maintenance and shop	680,059	680,059	850,109	(170,050)
<b>Total highways and streets</b>	<b>\$ 6,792,784</b>	<b>\$ 6,792,784</b>	<b>\$ 6,461,827</b>	<b>\$ 330,957</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (122,229)</b>	<b>\$ (122,229)</b>
<b>Fund Balance - January 1</b>	<b>2,741,288</b>	<b>2,741,288</b>	<b>2,741,288</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>3,124</b>	<b>3,124</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,741,288</b>	<b>\$ 2,741,288</b>	<b>\$ 2,622,183</b>	<b>\$ (119,105)</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 2,825,479	\$ 2,825,479	\$ 2,838,229	\$ 12,750
Intergovernmental	7,851,292	8,346,700	8,152,805	(193,895)
Charges for services	57,403	57,403	330,594	273,191
Investment earnings	-	-	589	589
Gifts and contributions	-	-	2,262	2,262
Miscellaneous	522,666	522,666	921,997	399,331
<b>Total Revenues</b>	<b>\$ 11,256,840</b>	<b>\$ 11,752,248</b>	<b>\$ 12,246,476</b>	<b>\$ 494,228</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 2,524,366	\$ 2,524,366	\$ 2,614,780	\$ (90,414)
Social services	6,961,800	6,961,800	6,697,451	264,349
<b>Total human services</b>	<b>\$ 9,486,166</b>	<b>\$ 9,486,166</b>	<b>\$ 9,312,231</b>	<b>\$ 173,935</b>
<b>Health</b>				
Home care	\$ 1,770,674	\$ 2,266,082	\$ 1,179,601	\$ 1,086,481
Family health	-	-	693,469	(693,469)
Health promotion	-	-	195,868	(195,868)
Disease control and prevention	-	-	77,316	(77,316)
<b>Total health</b>	<b>\$ 1,770,674</b>	<b>\$ 2,266,082</b>	<b>\$ 2,146,254</b>	<b>\$ 119,828</b>
<b>Total Expenditures</b>	<b>\$ 11,256,840</b>	<b>\$ 11,752,248</b>	<b>\$ 11,458,485</b>	<b>\$ 293,763</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 787,991</b>	<b>\$ 787,991</b>
<b>Fund Balance - January 1</b>	<b>4,321,075</b>	<b>4,321,075</b>	<b>4,321,075</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,321,075</b>	<b>\$ 4,321,075</b>	<b>\$ 5,109,066</b>	<b>\$ 787,991</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*Schedule 4*

**BUDGETARY COMPARISON SCHEDULE  
FORFEITED TAX SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 208,937	\$ 208,937	\$ 92,712	\$ (116,225)
Intergovernmental	-	-	5,756	5,756
Miscellaneous	-	-	587,880	587,880
<b>Total Revenues</b>	<b>\$ 208,937</b>	<b>\$ 208,937</b>	<b>\$ 686,348</b>	<b>\$ 477,411</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
County Auditor/Treasurer	\$ -	\$ -	\$ 24,360	\$ (24,360)
<b>Conservation of natural resources</b>				
Land use	208,937	208,937	258,665	(49,728)
<b>Total Expenditures</b>	<b>\$ 208,937</b>	<b>\$ 208,937</b>	<b>\$ 283,025</b>	<b>\$ (74,088)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 403,323</b>	<b>\$ 403,323</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(456,840)	(456,840)
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (53,517)</b>	<b>\$ (53,517)</b>
<b>Fund Balance - January 1</b>	<b>215,000</b>	<b>215,000</b>	<b>215,000</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 215,000</b>	<b>\$ 215,000</b>	<b>\$ 161,483</b>	<b>\$ (53,517)</b>

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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1. Budgetary Information

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

In July of each year, all departments and agencies submit requests for appropriations to the County Auditor 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, 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, 2004, expenditures exceeded appropriations in the following funds:

General Fund	\$ 882,722	Funded by greater than anticipated revenues
Forfeited Tax	74,088	Funded by greater than anticipated revenues

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**SUPPLEMENTARY INFORMATION**

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**GOVERNMENTAL FUNDS**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

*Schedule 5*

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 562,941	\$ 562,941	\$ 566,573	\$ 3,632
Intergovernmental	87,403	87,403	87,403	-
<b>Total Revenues</b>	<b>\$ 650,344</b>	<b>\$ 650,344</b>	<b>\$ 653,976</b>	<b>\$ 3,632</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal retirement	\$ 545,000	\$ 545,000	\$ 545,000	\$ -
Interest	105,344	105,344	153,931	(48,587)
Administrative (fiscal) charges	-	-	1,627	(1,627)
<b>Total Expenditures</b>	<b>\$ 650,344</b>	<b>\$ 650,344</b>	<b>\$ 700,558</b>	<b>\$ (50,214)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (46,582)</b>	<b>\$ (46,582)</b>
<b>Fund Balance - January 1</b>	<b>670,849</b>	<b>670,849</b>	<b>670,849</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 670,849</b>	<b>\$ 670,849</b>	<b>\$ 624,267</b>	<b>\$ (46,582)</b>

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**FIDUCIARY FUNDS**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

*Statement 1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>MOTOR VEHICLE REGISTRATION</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 4,882,268	\$ 4,882,268	\$ -
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 4,882,268	\$ 4,882,268	\$ -
 <b><u>EMPLOYEE FLEXIBLE BENEFITS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 15,907	\$ 88,173	\$ 86,290	\$ 17,790
<b><u>Liabilities</u></b>				
Accounts payable	\$ 15,907	\$ 88,173	\$ 86,290	\$ 17,790
 <b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 54,139	\$ 5,117,182	\$ 5,088,547	\$ 82,774
Accounts receivable	97,877	75,407	97,877	75,407
<b>Total Assets</b>	<b>\$ 152,016</b>	<b>\$ 5,192,589</b>	<b>\$ 5,186,424</b>	<b>\$ 158,181</b>
<b><u>Liabilities</u></b>				
Due to other governments	\$ 152,016	\$ 5,192,589	\$ 5,186,424	\$ 158,181

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*Statement 1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>SCHOOL DISTRICTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 84,634	\$ 5,863,107	\$ 5,855,963	\$ 91,778
<b><u>Liabilities</u></b>				
Due to other governments	\$ 84,634	\$ 5,863,107	\$ 5,855,963	\$ 91,778
<b><u>TOWNS AND CITIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 77,533	\$ 6,075,439	\$ 6,083,140	\$ 69,832
<b><u>Liabilities</u></b>				
Due to other governments	\$ 77,533	\$ 6,075,439	\$ 6,083,140	\$ 69,832
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 27,594,996	\$ 27,594,996	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 27,594,996	\$ 27,594,996	\$ -

**CARLTON COUNTY  
CARLTON, MINNESOTA**

*Statement 1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	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	\$ 5,345	\$ -	\$ 4,177	\$ 1,168
<b><u>Liabilities</u></b>				
Due to other governments	\$ 5,345	\$ -	\$ 4,177	\$ 1,168
 <b><u>REFUNDING</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 8,588	\$ 218,963	\$ 214,913	\$ 12,638
<b><u>Liabilities</u></b>				
Accounts payable	\$ 8,588	\$ 218,963	\$ 214,913	\$ 12,638
 <b><u>COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 2,039,924	\$ 1,116,788	\$ 1,458,746	\$ 1,697,966
<b><u>Liabilities</u></b>				
Accounts payable	\$ 205	\$ 1,024	\$ 205	\$ 1,024
Salaries payable	4,176	4,910	4,176	4,910
Due to other governments	2,035,543	1,110,854	1,454,365	1,692,032
<b>Total Liabilities</b>	<b>\$ 2,039,924</b>	<b>\$ 1,116,788</b>	<b>\$ 1,458,746</b>	<b>\$ 1,697,966</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, 2004**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 2,286,070	\$ 50,956,916	\$ 51,269,040	\$ 1,973,946
Accounts receivable	97,877	75,407	97,877	75,407
<b>Total Assets</b>	<b>\$ 2,383,947</b>	<b>\$ 51,032,323</b>	<b>\$ 51,366,917</b>	<b>\$ 2,049,353</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 24,700	\$ 5,190,428	\$ 5,183,676	\$ 31,452
Salaries payable	4,176	4,910	4,176	4,910
Due to other governments	2,355,071	45,836,985	46,179,065	2,012,991
<b>Total Liabilities</b>	<b>\$ 2,383,947</b>	<b>\$ 51,032,323</b>	<b>\$ 51,366,917</b>	<b>\$ 2,049,353</b>

**OTHER SCHEDULE**

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Schedule 6**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**Shared Revenue**

**State**

Highway user tax	\$	2,991,987
County program aid		1,695,912
PERA rate reimbursement		54,850
Disparity reduction aid		373,576
Police aid		103,089
E-911		54,714
Market value credit		1,440,497
Casino revenue aid		7,839
		7,839

**Total Shared Revenue** **\$ 6,722,464**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$	3,085,245
		3,085,245

**Payments**

**Local**

Carlton County collaborative	\$	101,263
Household hazardous waste		18,291
Other local governments		9,555

**State**

Payments in lieu of taxes		134,399
		134,399

**Total Payments** **\$ 263,508**

**Grants**

**State**

Minnesota Department/Board of		
Education	\$	23,305
Public Safety		35,687
Transportation		92,797
Health		208,194
Natural Resources		98,448
Human Services		2,788,904
Water and Soil Resources		37,000
Peace Officers		8,595
Iron Range Resources and Rehabilitation		226,759
Environmental Assistance		74,838
		74,838

**Total State** **\$ 3,594,527**

**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Schedule 6  
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**Grants (Continued)**

**Federal**

Department of	
Agriculture	\$ 94,595
Commerce	4,975
Justice	241,923
Transportation	1,085,132
Environmental Protection Agency	4,000
Homeland Security	57,877
Health and Human Services	1,178,601
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**Total Federal** **\$ 2,667,103**

**Total State and Federal Grants** **\$ 6,261,630**

**Total Intergovernmental Revenue** **\$ 16,332,847**



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**CARLTON COUNTY  
CARLTON, MINNESOTA**

*Schedule 7*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**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. Reportable conditions 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 reportable conditions are material weaknesses. The reportable conditions 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. A reportable condition relating to the audit of the major federal award programs is 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." The reportable condition is a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for Carlton County expresses a qualified opinion.
- F. Findings relative to a major federal award program for Carlton County were reported as required by Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Airport Improvement Program	CFDA #20.106
Highway Planning and Construction	CFDA #20.205
Temporary Assistance for Needy Families	CFDA #93.558
Foster Care	CFDA #93.658

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 has stated that the bank reconciliation duties are rotated between the two Treasurer's Office personnel. However, the duties are rotated based on who has the time to do the reconciliation, rather than a rotation where each person does the reconciliation every other month.

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, a rotation of duties between the two personnel every month, along with 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 and 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. All revenues received from the sale of items and all purchases of goods for resale are handled through a separate checking account. The activity of the canteen fund 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 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/Treasurer 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.*

99-1 Inventory Records

During our audit, we reviewed the accuracy of the Road and Bridge Department's perpetual inventory records. We performed test counts of inventory and compared the counts to the amounts indicated on the perpetual records. At the time of our count, the inventory system was about two months behind in posting activity for purchases and usage. Therefore, our test counts revealed variances in 14 of 30 items we counted.

The Road and Bridge accountant posts all items received from vendor invoices to the inventory control records. He relies on information from the garages on the amount of inventory used to post usage to the system. Because the inventory system was not updated in a timely manner, it did not reflect an accurate account of the inventory on hand at the time of our counts. In past audits, we also noted variances between our counts and the perpetual inventory records which seemed to be due to an inaccurate recording of inventory usage.

We recommend the Road and Bridge accountant update the purchases and usages of inventory on a current basis and make periodic test counts of inventory to determine the accuracy of the records.

Client's Response:

*Inventory records will be updated more promptly, and test counts will be used to determine differences between actual counts and book values.*

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

A. COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

02-2 Compliance Documentation in Case Files - Foster Care (CFDA #93.658)

Questioned cost: \$15,289

During our prior audit of Foster Care program case files we noted that not all required documentation was obtained and included in the files.

*Schedule 7*  
*(Continued)*

The County has submitted documentation to the Minnesota State Department of Human Services (DHS) regarding these findings. The State has determined that the County has produced sufficient documentation to support IV-E eligibility and resolve questioned cost issues in all but one of these cases.

Case #1955456 remains a questioned cost in the amount of \$6,160, as the County did not produce sufficient documentation to support claiming of IV-E reimbursement during the time period in question.

When a child is initially removed from the home, the first court ruling must contain specific language to the effect that remaining at home would be contrary to the child's welfare (45 CFR § 1356.21 (c)). Additionally, federal regulations require that "IV-E reimbursement of foster care maintenance payments can only be made for placements when such child placement and care are the legal responsibility of (1) a state agency administering the IV-E plan, or (2) any other public agency with whom the state agency administering or supervising the administration of the state plan has made an agreement {PL 96-272, Section 472(a)(2)}". In Minnesota, the DHS transfers legal responsibility for placement and supervision to the Local Social Service Agency (LSSA). In the case cited, legal responsibility was transferred to the Carlton County Court. For this to occur, there must exist a *Substitute Care Supervision Agreement* between the LSSA and the court, or any other designated agency. This agreement did not exist at the time of the transfer of legal responsibility. Unless the County can produce a transcript of the court proceeding that would indicate the judge meant to give legal responsibility to the LSSA, there exists no IV-E eligibility.

Within 60 days from the date of removal (45 CFR §§ 1256.21(b)(1), 1256.21 (k)(1)(ii)), there must be a judicial determination as to whether reasonable efforts were made to prevent the removal. In the case cited, this requirement was also not met.

During our current audit, we noted that in 2 of 29 cases we tested for compliance, the County had not documented an annual redetermination of eligibility. According to 42 USC 672 (a), a child must meet the eligibility requirements of the former Aid To Families with Dependent Children (AFDC) program, in order to be eligible for Foster Care. The state plan for implementing these regulations requires eligibility to be redetermined annually. This requirement is set forth in DHS Bulletin 00-68-10.

Schedule 7  
(Continued)

	<u>Number</u>	<u>Dollars</u>	<u>Questioned Costs</u>
Population Size	617	\$ 845,941	
Items Tested	29	60,893	
Items Not in Compliance	2	2,549	\$ 15,289

The current year exceptions noted above would make the recipient ineligible for the entire year under our audit. Therefore, we included in questioned costs not only those payments we actually tested but all other payments made to the ineligible clients during the year. Questioned costs were calculated at 50 percent of the costs submitted for reimbursement, as this is the approximate rate of reimbursement under the Foster Care Program.

For prior year findings, we recommend the County review the DHS findings and refund to them the \$6,160 disallowance determination. We also recommend that the County implement any other DHS recommendations or suggestions that were made during the course of their review.

For current year findings, we recommend the County obtain and maintain in the case files all required judicial determinations, DOC assessments, and eligibility redeterminations to support program costs.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action

*Brenda Carlson, Family Social Services Supervisor  
Kevin DeVriendt, Fiscal Supervisor*

Corrective Action Planned:

*We received an invoice for the \$6,160 questioned costs from 2003. We agree with the amount and will be paying Minnesota DHS on November 30. Other missing documentation will be obtained and placed in files.*

Anticipated Completion Date:

*Check to DHS for \$6,160 on November 30, 2005.  
Missing documentation on current cases should be obtained by January 2006.*

B. INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

03-1 Internal Controls over Eligibility Determination - Foster Care (CFDA #93.658)

During our current and prior audits, we noted instances of non-compliance with various compliance requirements relating to eligibility under the Foster Care program. These instances of non-compliance were noted in our testing of compliance with the program requirements of the Foster Care Program and are enumerated in Finding 02-2, above. In addition to the 29 files we tested for compliance with program requirements, we tested an additional 11 files for internal controls over compliance. We noted 2 case files that did not have current Difficulty of Care Assessments on file. Also, one case file did not have an eligibility determination form on file.

Carlton County has policies and procedures established over eligibility compliance requirements in the Foster Care Program. However, the policies and procedures are not always being followed to the extent that would prevent these deficiencies from occurring. We found significant improvement during the current audit in the case file documentation for court orders. However, we noted deficient documentation in the areas of eligibility redeterminations and difficulty of care assessments.

We recommend the Carlton County Human Services Director examine the County's compliance with current policies and procedures in this area to determine how these deficiencies in case file documentation can be corrected. All staff who perform these functions should be adequately trained in the compliance requirements relating to eligibility in the foster care program.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action

*Brenda Carlson, Family Social Services Supervisor  
1215 Avenue C, Cloquet, Minnesota 55720 218-878-2588*

Corrective Action Planned:

*Staff will receive training by Lynn Olund concerning eligibility procedures for IV-E. Quarterly unit meeting discussions will occur with the Case Aide to remind social workers of procedures that need to be followed. Workers felt that if a child was not receiving a DOC, the form did not need to be completed. Workers will/have been retrained that DOC forms need to be completed annually, foster homes need to be notified, and a copy needs to be in the client file annually. We are working with the County Attorney's Office, the Court Administrator's Office, and our CJI committee to address the wording needed for a judicial determination and to address the ongoing issue of timelines and court hearings.*

Anticipated Completion Date:

*Lynn Olund has met with the Unit to discuss IV-E eligibility and the requirements needed. Workers have already been told that a DOC form must be filled out annually regardless if a child is receiving DOC points or not. The Team Lead and Supervisor will monitor this when reviewing the case with the social worker on an annual basis. Our next CJI meeting is in December. The wording and findings needed for IV-E and also timelines will be placed on the CJI agenda. It is anticipated that this will be completed by January 3, 2006.*

**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 the 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 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 \$37,600.

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.*

ITEM ARISING THIS YEAR

04-1 Publication of Financial Statements

Minn. Stat. § 375.15 requires the County to annually publish its financial statements. The County Auditor has not published the financial statements for 2003.

We recommend the County Auditor publish the County's financial statements annually as required by Minn. Stat. § 375.15.

Client's Response:

*As required by Minn. Stat. § 375.15, the Carlton County Auditor/Treasurer will ensure that the financial statements for 2003 and 2004 are published in the County's legal newspaper.*

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/Treasurer 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 insure that there is an agreement with an alternative site to provide backup in the event of a disaster. Formal disaster recovery sites are being identified, and agreements shall be negotiated for such a Plan.*

98-7

Contract Change Orders

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

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

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

Client's Response:

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

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (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, like 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, the County Board will have to decide whether to establish a trust to fund the OPEB.
- 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 years ended December 31, 2007 and 2008, respectively.

## **OTHER REQUIRED REPORTS**

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PATRICIA ANDERSON  
STATE AUDITOR

**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, 2004, and have issued our report thereon dated October 11, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data

consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 96-11 through 96-13, 96-18, and 99-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions listed 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 main 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.

This report is intended solely for the information and use of the Board of County Commissioners and management and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: October 11, 2005

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PATRICIA ANDERSON  
STATE AUDITOR

## **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, 2004. 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.

As described in item 02-2 in the accompanying Schedule of Findings and Questioned Costs, Carlton County did not comply with requirements regarding eligibility that are applicable to its Foster Care program CFDA 93.658. Compliance with such requirements is necessary, in our opinion, for Carlton County to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2004.

#### 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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 03-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 03-1 to be a material weakness.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of Carlton County as of and for the year ended December 31, 2004, and have issued our report thereon dated October 11, 2005. 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, 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/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: October 11, 2005

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**CARLTON COUNTY  
CARLTON, MINNESOTA**

**Schedule 8**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

<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	\$ <u>94,595</u>
<b>U.S. Department of Commerce</b>			
Passed Through Minnesota Department of Natural Resources Coastal Zone Management Administration Grant		11.419	\$ <u>4,975</u>
<b>U.S. Department of Justice</b>			
Passed Through Minnesota Department of Economic Security Juvenile Accountability Incentive Block Grant		16.523	\$ 8,944
Passed Through Minnesota Department of Public Safety Victims of Crime Act		16.575	20,438
Local Law Enforcement Block Grant		16.592	28,314
Enforcing Underage Drinking Laws Program		16.727	2,700
Direct Grants to Encourage Arrest Policies		16.590	<u>181,527</u>
<b>Total U.S. Department of Justice</b>			<b>\$ <u>241,923</u></b>
<b>U.S. Department of Transportation</b>			
Passed Through Minnesota Department of Transportation Airport Improvement Program	0902-43	20.106	\$ 371,998
Highway Planning and Construction	09-596-02 09-601-38	20.205	<u>610,396</u>
<b>Total U.S. Department of Transportation</b>			<b>\$ <u>982,394</u></b>
<b>U.S. Environmental Protection Agency</b>			
Passed Through Minnesota Pollution Control Agency Nonpoint Source Implementation Grants		66.460	\$ <u>26,700</u>
<b>U.S. Department of Health and Human Services</b>			
Passed Through Minnesota Department of Education Child Care Mandatory and Matching Funds		93.596	\$ 22,632
Passed Through Minnesota Department of Human Services Temporary Assistance For Needy Families		93.558	260,366
Foster Care Title IV-E		93.658	311,076

**CARLTON COUNTY  
CARLTON, MINNESOTA**

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

<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 Minnesota Department of Human Services (Continued)			
Social Services Block Grant Title XX		93.667	319,592
Support for Emancipation and Living Functionally		93.674	26,143
Mental Health Block Grant		93.958	141,284
Preventive Health and Health Services		93.991	10,000
Passed Through Carlton, Cook, Lake, and St. Louis County			
Community Health Board Immunization Grants		93.268	1,600
Public Health Preparedness Grant		93.283	46,032
Maternal and Child Health Services Block Grant		93.994	39,876
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 1,178,601</b>
<b>U.S. Department of Homeland Security</b>			
Passed Through Minnesota Department of Public Safety			
Domestic Preparedness Equipment Grant		97.004	\$ 43,997
Emergency Management Performance Grants		97.042	13,880
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 57,877</b>
<b>Total Federal Awards</b>			<b>\$ 2,587,065</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 2004, there were \$275,768 of receivables not recognized as revenue because period of availability criteria had not been met and \$355,806 of prior year deferred revenue that became available.
4. Pass-through grant numbers were not assigned by some of the pass-through agencies.
5. Carlton County did not pass any federal awards to subrecipients.