

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

NORMAN COUNTY
ADA, MINNESOTA

FOR THE 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.

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

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

**NORMAN COUNTY
ADA, MINNESOTA**

For the Year Ended December 31, 2004



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

This page was left blank intentionally.

**NORMAN COUNTY
ADA, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets - Governmental Activities	Exhibit 1	11
Statement of Activities	Exhibit 2	12
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	13
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	Exhibit 4	15
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	Exhibit 6	17
Fiduciary Funds		
Statement of Fiduciary Net Assets	Exhibit 7	18
Notes to the Financial Statements		19
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	43
Road and Bridge Special Revenue Fund	Schedule 2	45
Human Services Special Revenue Fund	Schedule 3	46
Notes to the Required Supplementary Information		47

**NORMAN COUNTY
ADA, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Financial Section (Continued)		
Supplementary Information		
Nonmajor Governmental Funds		
Combining Balance Sheet - Special Revenue Funds	Statement A-1	48
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Special Revenue Funds	Statement A-2	49
Budgetary Comparison Schedules		
County Homes Special Revenue Fund	Schedule 4	50
Gravel Reserve Tax Special Revenue Fund	Schedule 5	51
Solid Waste Special Revenue Fund	Schedule 6	52
Fiduciary Funds		
Combining Statement of Changes in Assets and Liabilities - All Agency funds	Statement B-1	53
Other Schedules		
Schedule of Deposits and Investments	Schedule 7	54
Balance Sheet - By Ditch - Ditch Special Revenue Fund	Schedule 8	57
Schedule of Intergovernmental Revenue	Schedule 9	58
Management and Compliance Section		
Schedule of Findings and Recommendations	Schedule 10	60
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		64

This page was left blank intentionally.

**NORMAN COUNTY
ADA, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2004

		<u>Term Expires</u>
Elected		
Commissioners		
Board Member	Richard Andring	District 1 January 2005
Board Member	Warren Olson	District 2 January 2007
Board Member	Joseph (Ed) Miller	District 3 January 2005
Vice Chair	Lee Ann Hall	District 4 January 2007
Chair	Steven Bommersbach	District 5 January 2005
Attorney	Thomas A. Opheim	January 2007
Auditor-Treasurer	Richard D. Munter	January 2007
County Recorder	Kari Aanenson	January 2007
Registrar of Deed	Kari Aanenson	January 2007
County Sheriff	Myron Thronson	January 2007
Appointed		
Assessor	Lesilie Finseth	December 2008
County Engineer	Milton Alm	May 2005
Coroner	Keith Kummer	May 2008
Court Administrator	Loretta Wiebolt	Indefinite
Emergency Services	Kevin Ruud	May 2008
Veterans Service Officer	Theresa Anderson	August 2006
Welfare Board		
Chair	Steven Bommersbach	January 2005
Vice Chair	Lee Ann Hall	January 2007
Member	Richard Andring	January 2005
Member	Warren Olson	January 2007
Member	Joseph (Ed) Miller	January 2005
Member	Carol Sorenson	July 2005
Member	Doris Wiger	July 2006
Director	Nancy Nelson	Indefinite

This page was left blank intentionally.

This page was left blank intentionally.



STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Norman County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Norman County, Minnesota, as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Norman 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Norman County as of and for the year ended 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.

As discussed in the notes to the financial statements, Norman County adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in the format and content of the basic financial statements.

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

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Norman 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 December 8, 2005, on our consideration of Norman 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: December 8, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**NORMAN COUNTY
ADA, MINNESOTA**

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

Norman County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2004. Because fiscal year 2004 represents the first year in which Norman County implemented the provisions of Governmental Accounting Standards Board (GASB) Statement 34, this MD&A provides only limited comparisons with the previous year. The MD&A is new and will now be presented at the front of each year's audited financial statements. Future reports will include significantly more comparable information. 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 Norman County's financial statements and the notes to the financial statements. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The assets of Norman County exceeded its liabilities by \$43,612,679 at the close of 2004. Of this amount, \$6,108,351 (unrestricted net assets) may be used to meet Norman County's ongoing obligations to citizens and creditors.
- At the close of 2004, Norman County's governmental funds reported combined ending fund balances of \$5,783,928, a decrease of \$152,245 in comparison with the prior year. Of the total fund balance, \$4,761,107 is available for spending at the County's discretion and is noted as unreserved fund balance.
- At the close of 2004, unreserved, undesignated fund balance for the General Fund was \$2,415,906, or 98 percent of total General Fund expenditures.
- Norman County currently does not have any bonded indebtedness.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction of Norman County's basic financial statements. The County's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund level financial statements, and (3) notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and is included as required supplementary information. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of Norman County's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of Norman County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Norman County is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (such as uncollected taxes and earned but unused vacation leave).

The County's government-wide financial statements report functions of the County principally supported by taxes and intergovernmental revenues. The governmental activities of Norman County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development.

The government-wide financial statements can be found as Exhibits 1 and 2 of this report.

Fund Level Financial Statements

A "fund" is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. Norman County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Norman County can be divided into two categories--governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, County fund level financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term

financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Norman County reports seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Road and Bridge and Human Services Special Revenue Funds, all of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements after the notes to the financial statements.

Fiduciary funds. Fiduciary funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, or other funds. Norman County's fiduciary funds consist of four agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In addition, the agency funds are not reflected in the government-wide financial statements because those resources are not available to support the County's programs.

Notes to the Financial Statements

The notes to the financial statements provide additional information essential to a full understanding of the data provided.

Other Information

In addition to the basic financial statements and notes, supplementary information is provided on Norman County's budgeted funds, deposits and investments, ditch balances, and intergovernmental revenues.

Norman County adopts an annual appropriated budget for its General Fund and major special revenue funds. Budgetary comparison statements have been provided for the County's major funds to demonstrate compliance with these budgets.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Norman County's assets exceeded liabilities by \$43,612,679 at the close of 2004. The largest portion of Norman County's net assets (84 percent) reflects its investment in capital assets (such as land, infrastructure, buildings, and equipment). However, it should be noted that these assets are not available for future spending.

Governmental Net Assets

	<u>2004</u>
Current and other assets	\$ 9,345,194
Capital assets	<u>36,807,295</u>
Total Assets	<u>\$ 46,152,489</u>
Long-term liabilities outstanding	\$ 1,840,659
Other liabilities	<u>699,151</u>
Total Liabilities	<u>\$ 2,539,810</u>
Net Assets	
Invested in capital assets	\$ 36,807,295
Restricted	697,033
Unrestricted	<u>6,108,351</u>
Total Net Assets	<u>\$ 43,612,679</u>

The unrestricted net asset amount of \$6,108,351 as of December 31, 2004, may be used to meet the County's ongoing obligations to citizens and creditors.

Governmental Activities

Norman County's activities increased net assets by \$802,563, or 1.9 percent over the 2003 net assets. The key elements of the increase were the County's investment in its capital assets in 2004.

Changes In Net Assets

	<u>2004</u>
Revenues	
Program revenues	
Charges for services	\$ 672,194
Operating grants and contributions	5,340,598
Capital grants and contributions	130,211
General revenues	
Property taxes	2,765,566
Gravel taxes	2,312
Grants and contributions not restricted to specific programs	766,523
Other	<u>149,436</u>
Total Revenues	<u>\$ 9,826,840</u>

	2004
Expenses	
General government	\$ 1,147,616
Public safety	845,916
Highways and streets	3,964,654
Sanitation	423,247
Human services	1,975,148
Health	205,051
Culture and recreation	140,798
Conservation of natural resources	317,157
Economic development	4,040
Interest	650
	<hr/>
Total Expenses	\$ 9,024,277
	<hr/>
Increase in Net Assets	\$ 802,563
	<hr/>
Net Assets, January 1	42,810,116
	<hr/>
Net Assets, December 31	\$ 43,612,679
	<hr/> <hr/>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$5,783,928, a decrease of \$152,245 in comparison with the prior year. The majority of this amount (\$4,761,107) consists of unreserved fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The General Fund is the chief operating fund of Norman County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$2,724,851, while total fund balance was \$2,858,840. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 110 percent of total General Fund expenditures. In 2004, fund balance in the General Fund increased by \$379,052. This increase was due primarily to an increase in tax revenue and decreases in expenses associated with public safety and conservation of natural resources.

The Road and Bridge Special Revenue Fund's fund balance decreased by \$442,698 in 2004. The main reason for this decrease was project costs for road construction and maintenance.

The Human Services Special Revenue Fund's fund balance increased by \$52,946 from the prior year due to excess revenues over expenditures. In 2003, the excess revenues over expenditures was \$422,361. The difference is due to a decline in intergovernmental revenue and an increase in human service expenditures.

General Fund Budgetary Highlights

The Norman County Board of Commissioners did not make any budgetary amendments/revisions in 2004.

The actual revenues were higher than budgeted revenues by \$170,411, and actual expenditures were lower than budgeted expenditures by \$121,283. The largest revenue variance was in intergovernmental revenue where the County received more shared revenue than was budgeted. The largest expenditure variance was in general government, where actual expenditures were much lower than budgeted expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Norman County's investment in capital assets for its governmental activities as of December 31, 2004, was \$36,807,295 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The total increase in the County's investment in capital assets for the current fiscal year was 5.7 percent. The increases were attributed primarily in the areas of infrastructure, offset by the sale of the recycling center.

Governmental Capital Assets (Net of Depreciation)

	2004	2003
Land	\$ 1,125,097	\$ 1,038,992
Infrastructure	33,845,006	31,776,842
Buildings	866,456	1,009,502
Furniture, equipment, and machinery	970,736	997,670
Total	\$ 36,807,295	\$ 34,823,006

Additional information on the County's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, Norman County had no bonded indebtedness.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- Norman County's unemployment rate was 3.8 percent at the end of 2004. This was below the statewide range of 4.3 percent.
- Mortgage interest rates have been extremely low, causing many people to refinance their mortgages.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of Norman County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Norman County Auditor-Treasurer, P. O. Box 266, Ada, Minnesota 56510.

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page was left blank intentionally.

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT 1

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

Assets

Cash and pooled investments	\$	6,934,250
Petty cash and change funds		3,925
Taxes receivable		
Current - net		43,846
Prior - net		29,305
Special assessments receivable		
Current - net		25,462
Prior - net		30,227
Noncurrent - net		76,054
Accounts receivable - net		12,614
Accrued interest receivable		3,847
Due from other governments		1,476,119
Inventories		709,545
Capital assets		
Non-depreciable		1,125,097
Depreciable - net of accumulated depreciation		35,682,198
		46,152,489
Total Assets	\$	46,152,489

Liabilities

Accounts payable	\$	115,967
Salaries payable		28,893
Contracts payable		246,950
Due to other governments		77,645
Unearned revenue		229,696
Long-term liabilities		
Due within one year		1,629,490
Due in more than one year		211,169
		2,539,810
Total Liabilities	\$	2,539,810

Net Assets

Invested in capital assets	\$	36,807,295
Restricted for		
General government		45,973
Public safety		86,918
Highways and streets		564,142
Unrestricted		6,108,351
		43,612,679
Total Net Assets	\$	43,612,679

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT 2

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

	Program Revenues			Net (Expense)
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
Functions/Programs				
Governmental activities				
General government	\$ 1,147,616	\$ 152,925	\$ 102,379	\$ (892,312)
Public safety	845,916	46,757	144,501	(654,658)
Highways and streets	3,964,654	185,471	3,401,008	(247,964)
Sanitation	423,247	700	269,246	(153,301)
Human services	1,975,148	257,436	1,136,512	(581,200)
Health	205,051	-	152,321	(52,730)
Culture and recreation	140,798	-	58,901	(81,897)
Conservation of natural resources	317,157	28,905	75,730	(212,522)
Economic development	4,040	-	-	(4,040)
Interest	650	-	-	(650)
Total	\$ 9,024,277	\$ 672,194	\$ 5,340,598	\$ 130,211
General Revenues				\$ 2,765,566
Property taxes				2,312
Gravel taxes				766,523
Grants and contributions not restricted to specific programs				394
Gifts and contributions				80,541
Investment income				48,183
Miscellaneous				20,318
Rental income				\$ 3,683,837
Total general revenues				\$ 802,563
Change in net assets				\$ 42,810,116
Net Assets - Beginning				\$ 43,612,679
Net Assets - Ending				\$ 43,612,679

FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENTAL FUNDS

This page was left blank intentionally.

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT 3

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

	General	Road and Bridge	Human Services	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and pooled investments	\$ 2,775,011	\$ 1,807,061	\$ 1,969,450	\$ 284,432	\$ 6,835,954
Petty cash and change funds	3,725	200	-	-	3,925
Undistributed cash in agency funds	55,455	16,563	12,065	14,213	98,296
Taxes receivable					
Current	25,634	10,544	7,668	-	43,846
Prior	16,636	7,015	4,919	735	29,305
Special assessments receivable					
Current	10,853	-	-	14,609	25,462
Prior	9,856	-	-	20,371	30,227
Noncurrent	-	-	-	76,054	76,054
Accounts receivable	50	11,058	805	701	12,614
Accrued interest receivable	3,847	-	-	-	3,847
Due from other funds	2,274	17,824	319	-	20,417
Due from other governments	37,202	1,305,067	130,315	3,535	1,476,119
Inventories	-	709,545	-	-	709,545
Total Assets	\$ 2,940,543	\$ 3,884,877	\$ 2,125,541	\$ 414,650	\$ 9,365,611

**NORMAN COUNTY
ADA, MINNESOTA**

**EXHIBIT 3
(Continued)**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 8,854	\$ 19,563	\$ 65,541	\$ 22,009	\$ 115,967
Salaries payable	2,728	23,168	2,997	-	28,893
Contracts payable	-	246,950	-	-	246,950
Due to other funds	319	-	2,274	17,824	20,417
Due to other governments	15,474	9,072	52,016	1,083	77,645
Deferred revenue - unavailable	54,328	1,161,970	18,147	107,670	1,342,115
Deferred revenue - unearned	-	229,636	-	60	229,696
Advance from other governments	-	1,520,000	-	-	1,520,000
Total Liabilities	\$ 81,703	\$ 3,210,359	\$ 140,975	\$ 148,646	\$ 3,581,683
Fund Balances					
Reserved for					
Inventories	\$ -	\$ 709,545	\$ -	\$ -	\$ 709,545
Real estate tax shortfall	21,160	-	-	-	21,160
State-aid highway projects	-	50,214	-	-	50,214
Township road restoration	-	129,073	-	-	129,073
Missing heirs	1,098	-	-	-	1,098
Security deposits	200	-	-	-	200
Sheriff's contingency	2,448	-	-	-	2,448
Recorder's equipment	24,613	-	-	-	24,613
Enhanced 911	84,470	-	-	-	84,470
Unreserved					
Designated for K-9 unit	3,726	-	-	-	3,726
Designated for County building	305,219	-	-	-	305,219
Designated for social services building	-	-	500,000	-	500,000
Undesignated	2,415,906	(214,314)	1,484,566	-	3,686,158
Unreserved, reported in nonmajor Special revenue funds	-	-	-	266,004	266,004
Total Fund Balances	\$ 2,858,840	\$ 674,518	\$ 1,984,566	\$ 266,004	\$ 5,783,928
Total Liabilities and Fund Balances	\$ 2,940,543	\$ 3,884,877	\$ 2,125,541	\$ 414,650	\$ 9,365,611

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)	\$ 5,783,928
Amounts reported for governmental activities in the statement of activities are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	36,807,295
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	1,342,115
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	<u>(320,659)</u>
Net assets of governmental activities (Exhibit 1)	<u>\$ 43,612,679</u>

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT 5

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 1,630,727	\$ 667,070	\$ 469,152	\$ 4,393	\$ 2,771,342
Special assessments	149,339	-	-	251,393	400,732
Licenses and permits	5,828	-	-	700	6,528
Intergovernmental	755,217	4,909,396	1,263,203	60,932	6,988,748
Charges for services	186,077	12,539	44,352	-	242,968
Fines and forfeits	300	-	-	-	300
Interest on investments	80,541	-	-	-	80,541
Miscellaneous	40,496	102,599	213,084	16,615	372,794
Total Revenues	\$ 2,848,525	\$ 5,691,604	\$ 1,989,791	\$ 334,033	\$ 10,863,953
Expenditures					
Current					
General government	\$ 1,108,335	\$ -	\$ -	\$ 1,344	\$ 1,109,679
Public safety	813,537	-	-	-	813,537
Highways and streets	-	5,896,556	-	-	5,896,556
Sanitation	-	-	-	324,380	324,380
Human services	8,771	-	1,936,845	11,949	1,957,565
Health	205,051	-	-	-	205,051
Culture and recreation	140,798	-	-	-	140,798
Conservation of natural resources	188,941	-	-	64,640	253,581
Economic development	4,040	-	-	-	4,040
Intergovernmental					
Conservation of natural resources	-	240,673	-	61,204	301,877
Debt service					
Principal retirement	-	-	-	50,000	50,000
Interest	-	-	-	1,671	1,671
Total Expenditures	\$ 2,469,473	\$ 6,137,229	\$ 1,936,845	\$ 515,188	\$ 11,058,735
Excess of Revenues Over (Under) Expenditures	\$ 379,052	\$ (445,625)	\$ 52,946	\$ (181,155)	\$ (194,782)
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	-	-	-	39,610	39,610
Net Change in Fund Balance	\$ 379,052	\$ (445,625)	\$ 52,946	\$ (141,545)	\$ (155,172)
Fund Balance - January 1	2,479,788	1,117,216	1,931,620	407,549	5,936,173
Increase (decrease) in reserved for inventories	-	2,927	-	-	2,927
Fund Balance - December 31	\$ 2,858,840	\$ 674,518	\$ 1,984,566	\$ 266,004	\$ 5,783,928

**NORMAN COUNTY
ADA, 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) **\$ (155,172)**

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

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

Deferred revenue - December 31	\$ 1,342,115	
Deferred revenue - January 1	<u>(2,379,228)</u>	(1,037,113)

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Also, in the statement of activities, only the gain or loss on the disposal of capital assets is reported, whereas, in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets disposed of.

Expenditures for general capital assets and infrastructure	\$ 3,219,053	
Net book value of assets disposed of	(148,418)	
Current year depreciation	<u>(1,086,346)</u>	1,984,289

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets.

Principal repayments		
General obligation bonds		50,000

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	\$ 1,021	
Change in compensated absences	(43,389)	
Change in inventories	<u>2,927</u>	<u>(39,441)</u>

Change in net assets of governmental activities (Exhibit 2) **\$ 802,563**

This page was left blank intentionally.

FIDUCIARY FUNDS

This page was left blank intentionally.

NORMAN COUNTY
ADA, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2004

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 124,862</u>
<u>Liabilities</u>	
Due to other governments	\$ 93,123
Funds held in trust	<u>31,739</u>
Total Liabilities	<u>\$ 124,862</u>

This page was left blank intentionally.

**NORMAN COUNTY
ADA, MINNESOTA**

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

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). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes in the statement include the following:

- a Management's Discussion and Analysis section providing an analysis of the County's overall financial position and results of operations;
- financial statements prepared using full accrual accounting for all of the County's activities, including infrastructure (roads, bridges, etc.); and
- a change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The County has elected to implement all provisions of the statement in the current year.

A. Financial Reporting Entity

Norman County was established February 17, 1881, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. 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.

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in joint ventures, related organizations, and jointly-governed organizations, which are described in Notes 6.D., 6.E., and 6.F., respectively.

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 County. 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.

In the government-wide statement of net assets, the governmental activities: (a) are presented on a consolidated basis; and (b) 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. The County's net assets are reported in three parts: (1) invested in capital assets; (2) restricted net assets; and (3) 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 restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

Additionally, the County reports the following 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

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

revenues in the year for which they are levied. 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. Norman County considers all revenues to be available if collected within 60 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 long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of 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, unless the County Board takes specific action to appropriate those unrestricted resources.

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. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2004 were \$80,541.

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

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

2. Receivables and Payables

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

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

No allowance has been made for uncollectible receivables.

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.

3. Inventories

All inventories are valued at cost using the weighted average 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.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than the capitalization threshold and an estimated useful life in excess of two years. Such assets are recorded at

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The government's capitalization threshold for capital assets is as follows:

Assets	Capitalization Threshold
Land	\$ 1
All other classes of assets	5,000

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the County is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	25 - 40
Improvements other than buildings	20 - 35
Public domain infrastructure	15 - 75
Furniture, equipment, and vehicles	13 - 15

5. Compensated Absences

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

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Deferred Revenue

All County funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, the face amount of the debt issued is reported as an other financing source.

8. Fund Equity

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

9. Use of Estimates

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

**NORMAN COUNTY
ADA, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

Ditch Special Revenue Fund

Twelve of the 35 County-administered drainage systems have incurred expenditures in excess of their revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the total fund balance as of December 31, 2004:

Account balances		\$ 43,799
Account deficits		<u>(41,496)</u>
Total Fund Balances		<u>\$ 2,303</u>

B. Excess of Expenditures Over Budget - Nonmajor Funds

For the year ended December 31, 2004, expenditures exceeded budget in the following nonmajor fund:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
County Homes Special Revenue Fund	<u>\$ 11,949</u>	<u>\$ 6,950</u>	<u>\$ 4,999</u>

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental Activities		
Cash and pooled investments		\$ 6,934,250
Petty cash and change funds		3,925
Fiduciary funds		
Cash and pooled investments		
Agency funds		<u>124,862</u>
Total Cash and Investments		<u>\$ 7,063,037</u>

**NORMAN COUNTY
ADA, MINNESOTA**

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 \$7,059,112. The bank balance deposit amount was \$7,437,481. 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.

	Bank Balance
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 217,509
Collateralized with securities held by the pledging financial institution's agent in the County's name	7,219,972
Total covered deposits	\$ 7,437,481
Uncollateralized	-
Total	\$ 7,437,481

2. Receivables

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

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes	\$ 73,151	\$ -
Special assessments	131,743	-
Accounts	12,614	-
Interest	3,847	-
Due from other governments	1,476,119	-
Total Governmental Activities	\$ 1,697,474	\$ -

**NORMAN COUNTY
ADA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,038,992	\$ 133,265	\$ 47,160	\$ 1,125,097
Capital assets depreciated				
Buildings	\$ 2,027,741	\$ -	\$ 204,392	\$ 1,823,349
Machinery, furniture, and equipment	3,644,690	199,083	457,434	3,386,339
Infrastructure	40,727,555	2,886,705	-	43,614,260
Total capital assets depreciated	\$ 46,399,986	\$ 3,085,788	\$ 661,826	\$ 48,823,948
Less: accumulated depreciation for				
Buildings	\$ 1,018,239	\$ 41,788	\$ 103,134	\$ 956,893
Machinery, furniture, and equipment	2,647,020	226,017	457,434	2,415,603
Infrastructure	8,950,713	818,541	-	9,769,254
Total accumulated depreciation	\$ 12,615,972	\$ 1,086,346	\$ 560,568	\$ 13,141,750
Total capital assets depreciated, net	\$ 33,784,014	\$ 1,999,442	\$ 101,258	\$ 35,682,198
Governmental Activities Capital Assets, Net	\$ 34,823,006	\$ 2,132,707	\$ 148,418	\$ 36,807,295

Depreciation expense was charged to functions/programs of the County as follows:

Governmental Activities	
General government	\$ 32,679
Public safety	44,667
Highways and streets, including depreciation of infrastructure assets	1,002,918
Human services	4,137
Conservation of natural resources	1,945
Total Depreciation Expense - Governmental Activities	<u>\$ 1,086,346</u>

**NORMAN COUNTY
ADA, MINNESOTA**

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

Receivable Fund	Payable Fund	Amount
General Fund	Human Services Special Revenue Fund	\$ 2,274
Road and Bridge Special Revenue Fund	Other governmental funds	17,824
Human Services Special Revenue Fund	General Fund	319
Total Due To/From Other Funds		\$ 20,417

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

Accounts	\$ 115,967
Salaries	28,893
Contracts	246,950
Due to other governments	77,645
Total Payables	\$ 469,455

2. Construction Commitments

The government has active construction projects as of December 31, 2004. The projects include the following:

	Spent-to-Date	Remaining Commitment
Roads and bridges	\$ 1,526,427	\$ 239,485

**NORMAN COUNTY
ADA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Advances From Other Governments

The County received \$1,520,000 in 2002 from the State of Minnesota. The purpose of this loan was to cover expenditures made to repair roads damaged by the flooding in 2002. The County is required to pay these funds back to the state and has up to three years to pay back the entire amount. The advance payable is reported in the Road and Bridge Special Revenue Fund. The County did not make any payments toward this advance in 2004.

4. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 50,000	\$ -	\$ 50,000	\$ -	\$ -
Advance from state	1,520,000	-	-	1,520,000	1,520,000
Compensated absences	298,880	218,623	196,844	320,659	109,490
Governmental Activity Long-Term Liabilities	\$ 1,868,880	\$ 218,623	\$ 246,844	\$ 1,840,659	\$ 1,629,490

4. Pension Plans

A. Defined Benefit Plan

Plan Description

All full-time and certain part-time employees of Norman 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 and the Public Employees Police and Fire Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund.

**NORMAN COUNTY
ADA, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plan

Plan Description (Continued)

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

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

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, and all Public Employees Police and Fire Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund. That report may be obtained on the web at 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.

**NORMAN COUNTY
ADA, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plan (Continued)

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.

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

The County's contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund
	_____	_____
2004	\$ 116,315	\$ 20,249
2003	112,114	19,625
2002	114,854	19,427

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

**NORMAN COUNTY
ADA, MINNESOTA**

4. Pension Plans (Continued)

B. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer.

No vesting period is required to receive benefits in the Defined Contribution Plan. At the time of retirement or termination, the market value of the member's account is distributed to the member or another qualified plan.

The County's contributions for the year ending December 31, 2004, were \$455, equal to the contractually required contributions for each year as set by state statute.

5. 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. 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. For other risk, 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.

**NORMAN COUNTY
ADA, MINNESOTA**

5. 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.

6. Summary of Significant Contingencies and Other Items

A. Departmental Trust Deposits

Departmental trust deposits include funds deposited with various County departments as required by statute or court orders. The following is a summary of these trust deposits, which are not shown on the combined balance sheet at December 31, 2004.

Welfare Director	\$ <u>17,212</u>
------------------	------------------

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, in connection with the normal conduct of its affairs, is involved in various judgments, claims, and litigations; it is expected that the final settlement of these matters will not materially affect the financial statements of the County.

C. Dalen Coulee Project

On February 21, 2002, Norman County entered into a joint powers agreement pursuant to Minn. Stat. § 471.59 with Clay County. Clay County sold \$260,000 of bonds on behalf of the Wild Rice Watershed District for Dalen Coulee Project 40. Special assessments to pay for a portion of the bonds will be collected via Norman County. Norman County will remit the special assessment proceeds to Clay County.

**NORMAN COUNTY
ADA, MINNESOTA**

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

D. Joint Ventures

Tri-County Community Corrections

Tri-County Community Corrections was formed in 1975 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Norman, Polk, and Red Lake Counties. The purpose of Tri-County Community Corrections is to house, supervise, treat, counsel, and provide other correctional services to prisoners throughout the territorial area of the member counties.

Control is vested in the Tri-County Community Corrections Joint Powers Board, composed of two County Commissioners from each member county, as provided in Tri-County Community Corrections' bylaws.

In the event of dissolution of the Tri-County Community Corrections Joint Powers Board, the net assets of Tri-County Community Corrections at that time shall be divided among the member counties in the agreed-upon proportions of Norman County (9 percent), Polk County (87 percent), and Red Lake County (4 percent).

Tri-County Community Corrections' long-term debt consists of \$167,144 for compensated absences and \$8,957 for a lease purchase at December 31, 2004. Financing is provided by state, federal, and local grants, charges for services, and appropriations from member counties. Polk County, in an investment trust fund, reports the transactions of Tri-County Community Corrections on its financial statements. Norman County's contribution for 2004 was \$169,870.

Complete financial information can be obtained from the Polk County Auditor's Office or the Northwest Regional Corrections Center located at 600 Bruce Street, Crookston, Minnesota 56716.

Multi-County Nursing Service

The Multi-County Nursing Service established in 1977, under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, includes Becker, Mahnomon, and Norman Counties. The purpose of the Multi-County Nursing Service is the development, implementation, and operation of public health services throughout the member counties.

**NORMAN COUNTY
ADA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Multi-County Nursing Service (Continued)

Control of the Multi-County Nursing Service is vested in the Becker-Norman-Mahnomen Multi-County Board of Health, which consists of seven members. As provided in the bylaws, Norman and Mahnomen Counties have two members each and Becker County has three members.

On June 24, 2003, the Becker County Board passed a resolution to withdraw from the Multi-County Nursing Service as of January 1, 2005. Norman County became the fiscal agent.

In the event of withdrawal from the Becker-Norman-Mahnomen Multi-County Board of Health, the withdrawing county is not entitled to any reimbursement of funds contributed during the course of its membership except to the extent of any surplus uncommitted monies remaining in the operation account upon expiration of the fiscal year of the county's withdrawal. Such surplus shall be distributed in the proportion that the withdrawing county's contribution bears to the aggregate contribution of all member parties for the year of withdrawal. Funds utilized for capital asset acquisition shall be paid only at the time of sale of such assets.

The Multi-County Nursing Service's long-term debt consists of \$1,519 for a capital lease and \$19,512 for compensated absences at December 31, 2004. Financing is provided by state and federal grants, appropriations from other counties, charges for services, and miscellaneous revenues. Norman County's contribution for 2004 was \$56,645.

Complete financial information can be obtained from Norman-Mahnomen Community Health Services, Room 107, 16 East 3rd Avenue, Ada, Minnesota 56510.

Norman County-Ada-Twin Valley Joint Airport

The Norman County-Ada-Twin Valley Airport Authority was established in 1976, under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59. The purpose of the Norman County-Ada-Twin Valley Joint Airport Authority is the construction, development, and maintenance of the Norman County-Ada-Twin Valley Joint Airport. Minn. Stat. § 360.032 allows every municipality, through its governing body, to acquire property, real or personal, for the purpose of establishing, constructing, and enlarging airports.

**NORMAN COUNTY
ADA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Norman County-Ada-Twin Valley Joint Airport (Continued)

Control of the Norman County-Ada-Twin Valley Joint Airport is vested in the Norman County-Ada-Twin Valley Airport Authority, which consists of six members. As provided in the bylaws, the Norman County Board appoints two members, and each of the two city councils appoints two members.

The joint powers agreement remains in force until any single member gives the other parties one year's written notice of this termination. Any party terminating the agreement shall transfer its interest in the real and personal assets to the remaining parties for consideration of one dollar.

Financing of the capital costs and operations is provided by state and federal grants; charges for services; and appropriations from Norman County, Ada, and Twin Valley. Norman County's contribution for 2004 was \$4,400.

Complete financial statements for the Norman County-Ada-Twin Valley Joint Airport can be obtained from Norman County Abstracting and Accounting, Inc., 18 East 4th Avenue, Ada, Minnesota 56510.

Polk-Norman-Red Lake-Pennington Counties Drug Task Force

The Polk-Norman-Red Lake-Pennington Counties Drug Task Force Joint Powers Agreement was formed March 17, 1999, under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Norman, Pennington, Polk, and Red Lake Counties, and the Cities of Ada, Crookston, and East Grand Forks. The purpose of this agreement is to promote the effective enforcement of the laws of the State of Minnesota, particularly those laws concerning controlled substances and related crimes.

Control of the Task Force is vested in a Board of Directors, comprising the County Sheriff and County Attorney of the member counties and the chief law enforcement officers of the member cities.

The Polk County Sheriff's Office acts as fiscal agent. Transactions of the Drug Task Force are reported in the Public Safety Special Revenue Fund in Polk County's financial statements. Complete financial information can be obtained from the Polk County Sheriff's Office, 600 Bruce Street, Crookston, Minnesota 56716.

**NORMAN COUNTY
ADA, MINNESOTA**

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

E. Related Organizations

Ambulance Service

Norman County and the City of Ada entered into an agreement to establish an Ambulance Advisory Committee, effective March 5, 1991. The purpose of the Committee is to provide coordinated funding and delivery of ambulance services within Norman County.

Sand Hill River Watershed District

The Sand Hill River Watershed District was formed pursuant to Minn. Stat. § 103D.201, effective August 29, 1974, and includes land within Mahnomen, Norman, and Polk Counties. The purpose of the District is to conserve the natural resources of the state by land-use planning, flood control, the use of sound scientific principles for the protection of the public health and welfare, and the provident use of natural resources. Control of the District is vested in the Sand Hill River Watershed District Board of Managers, composed of five members appointed by the Polk County Board for staggered terms of three years each. Polk County's responsibility does not extend beyond making the appointments.

F. Jointly-Governed Organizations

Norman County, in conjunction with other governmental entities and various private organizations, formed the jointly-governed organizations listed below:

Agassiz Recreational Trail Joint Powers Board

Clay, Norman, and Polk Counties entered into a joint powers agreement to establish the Agassiz Recreational Trail Joint Powers Board, effective February 9, 1993, and empowered under Minn. Stat. § 471.59. The purpose of the Board is to provide the construction, maintenance, and operation of a system of trails and pathways. The Board consists of two members appointed by each member county and one person appointed by the Norman County Soil and Water Conservation District.

**NORMAN COUNTY
ADA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations (Continued)

Wild Rice Watershed District

The Wild Rice Watershed District was established in 1969 pursuant to Minn. Stat. ch. 103D, and includes Becker, Clay, Clearwater, Mahnomen, Norman, and Polk Counties. The purpose of the Wild Rice Watershed District is to oversee watershed projects, conduct studies for future project planning, administer legal drainage systems, issue applications and permits, educate the public on conservation issues, and resolve disputes.

Control of the Watershed District is vested in the Board of Managers, composed of seven members appointed by the County Commissioners of Becker, Clay, Mahnomen, and Norman Counties. Norman County appoints three members, Clay County appoints two members, and the remaining counties each appoint one member.

Complete financial information can be obtained from the Wild Rice Watershed District office at 11 East 5th Avenue, Ada, Minnesota 56510.

Job Training Partnership Act Joint Powers Agreement

The Job Training Partnership Act Joint Powers Agreement was formed in July 1994 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Kittson, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Joint Powers Agreement is to designate the members of the Northwest Regional Development Commission's Board of Directors as the local elected officials to work with the Northwest Private Industry Council for the Northwest Service Delivery Area, including specific duties as listed in the Agreement.

In the event of dissolution of the Joint Powers Agreement, the net assets of the Joint Powers Board at that time shall be disposed of in accordance with law.

Financing is provided primarily from federal grants provided through the Job Training Partnership Act of 1982. Complete financial information can be obtained from the Northwest Regional Development Commission, 115 South Main, Warren, Minnesota 56762.

**NORMAN COUNTY
ADA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations (Continued)

Minnesota Red River Basin of the North Joint Powers Agreement

The Minnesota Red River Basin of the North Joint Powers Board was established November 29, 1999, by an agreement between Norman County and 14 other counties. The agreement was made to serve as a focal point for land and water concerns for those counties surrounding the Minnesota Red River Basin. Each county is responsible for its proportionate share of the administrative budget.

Control is vested in a Joint Powers Board, comprising one Commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

In the event of termination of the Agreement, any unexpended funds and surplus property shall be disposed of equally among the member counties. Norman County's contribution for 2004 was \$186.

Complete financial statements can be obtained from the offices of The International Coalition at 119 - 5th Street South, Moorhead, Minnesota 56560.

The Children's Collaborative (Serving Norman County Families)

The Children's Collaborative (Serving Norman County Families) was established in 1999 under the authority of Minn. Stat. § 124D.23. The Collaborative includes Norman County Social Services, Ada-Borup Public Schools, Norman County East Public Schools, Norman County West Public Schools, Multi-County Nursing Service, Northwestern Mental Health Center, and Tri-Valley Opportunity Council, Inc. The purpose of the Collaborative is to provide coordinated services and to commit resources to an integrated fund. Control of the Collaborative is vested in a Board of Directors, comprised of one member appointed by each member party.

In the event of withdrawal from the Collaborative, the withdrawing party shall give a 180-day notice. The withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to a refund of contributions made to the Integrated Fund or other fees paid to operate the Collaborative. The Board shall continue to exist if the Collaborative is terminated for the limited purpose of discharging the Collaborative's debts and liabilities, settling its affairs, and disposing of Integrated Fund assets, if any.

**NORMAN COUNTY
ADA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations

The Children's Collaborative (Serving Norman County Families) (Continued)

Financing is provided by state and federal grants and contributions from its member parties. Complete financial information can be obtained from the Norman County East School District, 408 Main Avenue, P. O. Box 420, Twin Valley, Minnesota 56584.

Northwest Workforce Service Area

The Northwest Workforce Service Area was formed in July 2000 under the authority of the Workforce Investment Act of 1998 (Public Law 105-22) and includes Kittson, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Service Area is to increase a participant's employment, retention, earnings, and occupational skill attainment, and result in improved workforce quality, reduced welfare dependency, and enhanced productivity and competitiveness.

Control of the Northwest Workforce Service Area is vested in the Northwest Private Industry Council/Workforce Council, comprised of 18 members with one representative from each of the seven counties, three members at large, and eight members representing local agencies. The joint powers agreement which created this Service Area terminated on June 30, 2002, and must be renewed by resolution of the participating county boards. In the event of dissolution of the Service Area, unexpended funds will be disposed of in accordance with law.

The Northwest Workforce Service Area has no long-term debt. Financing is provided by state and local grants. Complete financial information can be obtained from the Northwest Regional Development Commission, 115 South Main, Warren, Minnesota 56762.

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Becker, Beltrami, Clay, Clearwater, Itasca, Kittson, Lake, Lake of the Woods, Mahnomon, Marshall, McLeod, Morrison, Norman, Pennington, Polk, Red Lake, and Roseau Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, which is composed of ten directors, each with an alternate, who are appointed annually by each respective county board. Norman County's responsibility does not extend beyond making this appointment.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**NORMAN COUNTY
ADA, MINNESOTA**

Schedule 1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,131,811	\$ 2,131,811	\$ 1,630,727	\$ (501,084)
Special assessments	-	-	149,339	149,339
Licenses and permits	1,894	1,894	5,828	3,934
Intergovernmental	235,061	235,061	755,217	520,156
Charges for services	205,590	205,590	186,077	(19,513)
Fines and forfeits	-	-	300	300
Interest on investments	70,350	70,350	80,541	10,191
Miscellaneous	33,408	33,408	40,496	7,088
Total Revenues	\$ 2,678,114	\$ 2,678,114	\$ 2,848,525	\$ 170,411
Expenditures				
Current				
General government				
Commissioners	\$ 150,250	\$ 150,250	\$ 136,592	\$ 13,658
Courts	5,000	5,000	8,396	(3,396)
Public defender	5,000	5,000	-	5,000
Law library	8,835	8,835	9,682	(847)
County auditor	214,610	214,610	196,349	18,261
County assessor	119,311	119,311	114,547	4,764
Elections	22,700	22,700	12,178	10,522
Accounting and auditing	-	-	30,094	(30,094)
Data processing	-	-	36,369	(36,369)
Attorney	98,267	98,267	102,141	(3,874)
Victim assistance	52,000	52,000	48,267	3,733
Recorder	197,110	197,110	181,716	15,394
Planning and zoning	10,361	10,361	11,642	(1,281)
Buildings and plant	132,880	132,880	114,225	18,655
Veterans service officer	63,485	63,485	55,338	8,147
Other general government	-	-	150	(150)
Unallocated - general government	406,400	406,400	50,649	355,751
Total general government	\$ 1,486,209	\$ 1,486,209	\$ 1,108,335	\$ 377,874
Public safety				
Sheriff	\$ 508,491	\$ 508,491	\$ 494,939	\$ 13,552
K-9 unit	300	300	-	300
Coroner	5,750	5,750	7,416	(1,666)
Radio tower	3,000	3,000	992	2,008
Hazardous materials training	12,561	12,561	92,924	(80,363)
Safety coordinator	9,837	9,837	12,124	(2,287)
E-911 system	1,000	1,000	12,517	(11,517)
Community corrections	170,870	170,870	169,870	1,000
Civil defense	24,924	24,924	22,755	2,169
Police and fire	1,500	1,500	-	1,500
Total public safety	\$ 738,233	\$ 738,233	\$ 813,537	\$ (75,304)

**NORMAN COUNTY
ADA, 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		
Expenditures				
Current (Continued)				
Human services				
Income maintenance	\$ 7,771	\$ 7,771	\$ 7,771	\$ -
Social services	1,000	1,000	1,000	-
Total human services	\$ 8,771	\$ 8,771	\$ 8,771	\$ -
Health				
Nursing service	\$ 56,645	\$ 56,645	\$ 56,620	\$ 25
Ambulance	-	-	148,431	(148,431)
Total health	\$ 56,645	\$ 56,645	\$ 205,051	\$ (148,406)
Culture and recreation				
Historical society	\$ 7,650	\$ 7,650	\$ 7,650	\$ -
Agassiz trail project	100	100	31,901	(31,801)
Winter shows	800	800	800	-
County library	73,027	73,027	73,027	-
Celebrations	420	420	420	-
Snowmobile trails	-	-	27,000	(27,000)
Total culture and recreation	\$ 81,997	\$ 81,997	\$ 140,798	\$ (58,801)
Conservation of natural resources				
Cooperative extension	\$ 59,218	\$ 59,218	\$ 49,862	\$ 9,356
Soil and water conservation	60,000	60,000	60,000	-
Agricultural society	12,150	12,150	12,150	-
Forfeited tax	-	-	9,563	(9,563)
Weed control	56,947	56,947	53,162	3,785
Predator control	8,000	8,000	3,618	4,382
International coalition	186	186	186	-
Water planning	22,000	22,000	-	22,000
Other	400	400	400	-
Total conservation of natural resources	\$ 218,901	\$ 218,901	\$ 188,941	\$ 29,960
Economic development				
Airports	\$ -	\$ -	\$ 4,040	\$ (4,040)
Total Expenditures	\$ 2,590,756	\$ 2,590,756	\$ 2,469,473	\$ 121,283
Excess of Revenues Over (Under)				
Expenditures	\$ 87,358	\$ 87,358	\$ 379,052	\$ 291,694
Fund Balance - January 1	2,479,788	2,479,788	2,479,788	-
Fund Balance - December 31	\$ 2,567,146	\$ 2,567,146	\$ 2,858,840	\$ 291,694

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

Page 44

**NORMAN COUNTY
ADA, 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		
Revenues				
Taxes	\$ 840,000	\$ 840,000	\$ 667,070	\$ (172,930)
Intergovernmental	3,060,000	3,060,000	4,909,396	1,849,396
Charges for services	5,000	5,000	12,539	7,539
Miscellaneous	30,000	30,000	102,599	72,599
Total Revenues	\$ 3,935,000	\$ 3,935,000	\$ 5,691,604	\$ 1,756,604
Expenditures				
Current				
Highways and streets				
Administration	\$ 329,490	\$ 329,490	\$ 337,457	\$ (7,967)
Maintenance	1,186,810	1,186,810	1,314,292	(127,482)
Construction	1,833,850	1,833,850	3,856,779	(2,022,929)
Equipment and maintenance shops	361,880	361,880	388,028	(26,148)
Total highways and streets	\$ 3,712,030	\$ 3,712,030	\$ 5,896,556	\$ (2,184,526)
Intergovernmental				
Highways and streets	-	-	240,673	(240,673)
Total Expenditures	\$ 3,712,030	\$ 3,712,030	\$ 6,137,229	\$ (2,425,199)
Excess of Revenues Over (Under) Expenditures	\$ 222,970	\$ 222,970	\$ (445,625)	\$ (668,595)
Fund Balance - January 1	1,117,216	1,117,216	1,117,216	-
Increase (decrease) in reserved for inventories	-	-	2,927	2,927
Fund Balance - December 31	\$ 1,340,186	\$ 1,340,186	\$ 674,518	\$ (665,668)

**NORMAN COUNTY
ADA, 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		
Revenues				
Taxes	\$ 518,500	\$ 518,500	\$ 469,152	\$ (49,348)
Intergovernmental	977,494	977,494	1,263,203	285,709
Charges for services	27,500	27,500	44,352	16,852
Miscellaneous	99,000	99,000	213,084	114,084
Total Revenues	\$ 1,622,494	\$ 1,622,494	\$ 1,989,791	\$ 367,297
Expenditures				
Current				
Human services				
Income maintenance	\$ 514,091	\$ 514,091	\$ 549,048	\$ (34,957)
Social services	1,369,981	1,369,981	1,387,797	(17,816)
Total Expenditures	\$ 1,884,072	\$ 1,884,072	\$ 1,936,845	\$ (52,773)
Excess of Revenues Over (Under) Expenditures	\$ (261,578)	\$ (261,578)	\$ 52,946	\$ 314,524
Fund Balance - January 1	1,931,620	1,931,620	1,931,620	-
Fund Balance - December 31	\$ 1,670,042	\$ 1,670,042	\$ 1,984,566	\$ 314,524

**NORMAN COUNTY
ADA, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Ditch Special Revenue Fund. All annual appropriations lapse at fiscal year-end.

On or before mid-July or August of each year, all departments and agencies submit requests for budget appropriations to the County Auditor-Treasurer so that a budget can be prepared. Before September 15, the proposed budget is presented to the Norman County Board for review. The Board continues to refine the budget, holds departmental budget meetings, and a final budget must be prepared and adopted no later than December 31.

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

Encumbrances (for example, purchase orders and 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 Budget

The following is a summary of individual major funds which had expenditures in excess of budget for the year ended December 31, 2004.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Special Revenue Funds			
Road and Bridge	\$ 6,137,229	\$ 3,712,030	\$ 2,425,199
Human Services	1,936,845	1,884,072	52,773

This page was left blank intentionally.

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**NORMAN COUNTY
ADA, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

County Homes Fund - to account for the collection of rents and payment of expenses on small homes owned by Norman County which are rented to senior citizens.

Ditch Fund - To account for the financing and costs relating to all County ditches.

Gravel Reserve Tax Fund - To account for the proceeds of a special gravel removal or occupation tax which is restricted to expenditures for the restoration of abandoned gravel pits.

Solid Waste Fund - To account for the financing and costs relating to the Fosston Incinerator Project, County recycling center, demolition landfill, and public education.

This page was left blank intentionally.

**NORMAN COUNTY
ADA, MINNESOTA**

Statement A-1

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2004**

	County Homes	Ditch	Gravel Reserve Tax	Solid Waste	Total
<u>Assets</u>					
Cash and pooled investments	\$ 33,742	\$ 19,485	\$ 52,334	\$ 178,871	\$ 284,432
Undistributed cash in agency funds	-	458	-	13,755	14,213
Taxes receivable					
Prior	-	-	-	735	735
Special assessments receivable					
Current	-	565	-	14,044	14,609
Prior	-	98	-	20,273	20,371
Noncurrent	-	76,054	-	-	76,054
Accounts receivable	-	-	701	-	701
Due from other governments	-	-	-	3,535	3,535
Total Assets	<u>\$ 33,742</u>	<u>\$ 96,660</u>	<u>\$ 53,035</u>	<u>\$ 231,213</u>	<u>\$ 414,650</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 153	\$ 250	\$ -	\$ 21,606	\$ 22,009
Due to other funds	-	17,824	-	-	17,824
Due to other governments	157	-	-	926	1,083
Deferred revenue - unavailable	-	76,283	-	31,387	107,670
Deferred revenue - unearned	60	-	-	-	60
Total Liabilities	<u>\$ 370</u>	<u>\$ 94,357</u>	<u>\$ -</u>	<u>\$ 53,919</u>	<u>\$ 148,646</u>
Fund Balances					
Undesignated	33,372	2,303	53,035	177,294	266,004
Total Liabilities and Fund Balances	<u>\$ 33,742</u>	<u>\$ 96,660</u>	<u>\$ 53,035</u>	<u>\$ 231,213</u>	<u>\$ 414,650</u>

**NORMAN COUNTY
ADA, MINNESOTA**

Statement A-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	County Homes	Ditch	Gravel Reserve Tax	Solid Waste	Total
Revenues					
Taxes	\$ -	\$ -	\$ 2,312	\$ 2,081	\$ 4,393
Special assessments	-	43,158	-	208,235	251,393
Licenses and permits	-	-	-	700	700
Intergovernmental	-	-	-	60,932	60,932
Miscellaneous	7,270	9,345	-	-	16,615
Total Revenues	\$ 7,270	\$ 52,503	\$ 2,312	\$ 271,948	\$ 334,033
Expenditures					
Current					
General government	\$ -	\$ 1,344	\$ -	\$ -	\$ 1,344
Sanitation	-	-	-	324,380	324,380
Human services	11,949	-	-	-	11,949
Conservation of natural resources	-	64,640	-	-	64,640
Intergovernmental					
Conservation of natural resources	-	61,204	-	-	61,204
Debt service					
Principal retirement	-	50,000	-	-	50,000
Interest	-	1,671	-	-	1,671
Total Expenditures	\$ 11,949	\$ 178,859	\$ -	\$ 324,380	\$ 515,188
Excess of Revenues Over (Under) Expenditures	\$ (4,679)	\$ (126,356)	\$ 2,312	\$ (52,432)	\$ (181,155)
Other Financing Sources (Uses)					
Proceeds from sale of assets	-	-	-	39,610	39,610
Net Change in Fund Balance	\$ (4,679)	\$ (126,356)	\$ 2,312	\$ (12,822)	\$ (141,545)
Fund Balance - January 1	38,051	128,659	50,723	190,116	407,549
Fund Balance - December 31	\$ 33,372	\$ 2,303	\$ 53,035	\$ 177,294	\$ 266,004

**NORMAN COUNTY
ADA, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
COUNTY HOMES SPECIAL REVENUE 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>		
Revenues				
Miscellaneous	\$ 7,700	\$ 7,700	\$ 7,270	\$ (430)
Expenditures				
Current				
Human services				
Low-income housing	6,950	6,950	11,949	(4,999)
Excess of Revenues Over (Under)				
Expenditures	\$ 750	\$ 750	\$ (4,679)	\$ (5,429)
Fund Balance - January 1	<u>38,051</u>	<u>38,051</u>	<u>38,051</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 38,801</u>	<u>\$ 38,801</u>	<u>\$ 33,372</u>	<u>\$ (5,429)</u>

**NORMAN COUNTY
ADA, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
GRAVEL RESERVE TAX SPECIAL REVENUE 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>		
Revenues				
Taxes	\$ 1,000	\$ 1,000	\$ 2,312	\$ 1,312
Fund Balance - January 1	<u>50,723</u>	<u>50,723</u>	<u>50,723</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 51,723</u>	<u>\$ 51,723</u>	<u>\$ 53,035</u>	<u>\$ 1,312</u>

**NORMAN COUNTY
ADA, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ -	\$ -	\$ 2,081	\$ 2,081
Special assessments	215,765	215,765	208,235	(7,530)
Licenses and permits	400	400	700	300
Intergovernmental	59,650	59,650	60,932	1,282
Total Revenues	\$ 275,815	\$ 275,815	\$ 271,948	\$ (3,867)
Expenditures				
Current				
Sanitation				
Recycling	\$ 64,018	\$ 64,018	\$ 74,282	\$ (10,264)
Landfill	15,424	15,424	15,324	100
Fosston incinerator	268,895	268,895	216,946	51,949
Household hazardous waste	11,608	11,608	17,828	(6,220)
Total Expenditures	\$ 359,945	\$ 359,945	\$ 324,380	\$ 35,565
Excess of Revenues Over (Under) Expenditures	\$ (84,130)	\$ (84,130)	\$ (52,432)	\$ 31,698
Other Financing Sources (Uses)				
Proceeds from sale of assets	-	-	39,610	39,610
Net Change in Fund Balance	\$ (84,130)	\$ (84,130)	\$ (12,822)	\$ 71,308
Fund Balance - January 1	190,116	190,116	190,116	-
Fund Balance - December 31	\$ 105,986	\$ 105,986	\$ 177,294	\$ 71,308

This page was left blank intentionally.

**NORMAN COUNTY
ADA, MINNESOTA**

FIDUCIARY FUNDS

Agency Funds

Northwest Regional Development - to account for the collection and payment of amounts due to the Northwest Regional Development Commission.

State Revenue - to account for the collection and payment of amounts due to the state.

Taxes and Penalties - to account for the collection of taxes and penalties and their payment to the various taxing districts.

Watersheds - to account for the collection and payment of taxes due to watersheds.

This page was left blank intentionally.

**NORMAN COUNTY
ADA, MINNESOTA**

Statement B-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
<u>NORTHWEST REGIONAL DEVELOPMENT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1	\$ -	\$ 1	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 1	\$ -	\$ 1	\$ -
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 200,811	\$ 200,672	\$ 139
Accounts receivable	189	-	189	-
Total Assets	\$ 189	\$ 200,811	\$ 200,861	\$ 139
<u>Liabilities</u>				
Due to other governments	\$ 189	\$ 200,811	\$ 200,861	\$ 139
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 122,950	\$ 7,521,630	\$ 7,520,481	\$ 124,099
<u>Liabilities</u>				
Due to other governments	\$ 95,273	\$ 7,489,891	\$ 7,492,804	\$ 92,360
Funds held in trust	27,677	31,739	27,677	31,739
Total Liabilities	\$ 122,950	\$ 7,521,630	\$ 7,520,481	\$ 124,099

**NORMAN COUNTY
ADA, MINNESOTA**

***Statement B-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
<u>WATERSHEDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 8,298	\$ 624	\$ 8,298	\$ 624
<u>Liabilities</u>				
Due to other governments	\$ 8,298	\$ 624	\$ 8,298	\$ 624
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 131,249	\$ 7,723,065	\$ 7,729,452	\$ 124,862
Accounts receivable	189	-	189	-
Total Assets	\$ 131,438	\$ 7,723,065	\$ 7,729,641	\$ 124,862
<u>Liabilities</u>				
Due to other governments	\$ 103,761	\$ 7,691,326	\$ 7,701,964	\$ 93,123
Funds held in trust	27,677	31,739	27,677	31,739
Total Liabilities	\$ 131,438	\$ 7,723,065	\$ 7,729,641	\$ 124,862

OTHER SCHEDULES

This page was left blank intentionally.

NORMAN COUNTY
ADA, MINNESOTA

Schedule 7

SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2004

	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Fair Value</u>
Deposits and Investments			
Undesignated			
Money market checking (2)	0.05 to 0.25	Continuous	\$ 1,037,952
Certificates of deposit (12)	1.74 to 1.99	January 10, 2005 to March 28, 2005	<u>6,000,000</u>
Total undesignated			\$ 7,037,952
Designated for real estate tax shortfall			
Certificates of deposit (2)	1.80 to 1.90	December 22, 2005	<u>21,160</u>
Total Deposits and Investments			<u>\$ 7,059,112</u>

**NORMAN COUNTY
ADA, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2004**

	Assets				
	Cash and Pooled Investments	Undistributed Cash	Special Assessments Receivable		Total
			Delinquent	Deferred	
County Ditches					
5	\$ 4,031	\$ -	\$ -	\$ 422	\$ 4,453
6	(3,146)	4	-	3,010	(132)
7	6,592	57	42	-	6,691
8	(16,594)	-	430	5,600	(10,564)
9	1,216	-	-	1,932	3,148
14	959	-	-	-	959
17	(2,329)	32	-	1,600	(697)
22	2,180	-	-	10,582	12,762
23	(79)	-	7	297	225
24	1,978	-	-	816	2,794
25	3,128	-	-	-	3,128
26	97	-	-	-	97
28 & 3	182	-	-	-	182
29	1,031	-	-	374	1,405
29 Lat. 1	594	-	-	-	594
31	4,208	-	-	-	4,208
33	2,988	7	7	-	3,002
34	3,416	1	-	253	3,670
36	(941)	32	-	995	86
39	192	-	-	-	192
40	3,787	-	-	1,117	4,904
41	2,215	-	-	-	2,215
42	(4,980)	-	-	36,202	31,222
46	(209)	13	-	607	411
47	3,060	-	-	-	3,060
49	1,039	12	12	-	1,063
62	(1,775)	18	135	1,127	(495)
65	3,358	56	4	-	3,418
69	127	-	25	3,083	3,235
73	2,660	-	-	-	2,660
75	601	226	1	-	828
Borup State Ditch	87	-	-	-	87
Judicial Ditches					
54 South	(2,908)	-	-	8,037	5,129
55	2,737	-	-	-	2,737
57	(17)	-	-	-	(17)
Total	\$ 19,485	\$ 458	\$ 663	\$ 76,054	\$ 96,660

Schedule 8

Liabilities				Fund	Total
Accounts Payable	Due to Other Funds	Deferred Revenue	Total	Balance Unreserved Undesignated	Liabilities and Fund Balance
\$ -	\$ -	\$ 422	\$ 422	\$ 4,031	\$ 4,453
-	794	3,010	3,804	(3,936)	(132)
100	1,065	42	1,207	5,484	6,691
-	33	5,600	5,633	(16,197)	(10,564)
-	1,361	1,932	3,293	(145)	3,148
-	-	-	-	959	959
-	-	1,600	1,600	(2,297)	(697)
-	1,602	10,582	12,184	578	12,762
-	-	304	304	(79)	225
-	-	816	816	1,978	2,794
-	-	-	-	3,128	3,128
-	-	-	-	97	97
-	-	-	-	182	182
-	1,023	374	1,397	8	1,405
-	-	-	-	594	594
-	-	-	-	4,208	4,208
-	-	7	7	2,995	3,002
-	-	253	253	3,417	3,670
-	129	995	1,124	(1,038)	86
-	-	-	-	192	192
-	299	1,117	1,416	3,488	4,904
-	-	-	-	2,215	2,215
-	4,183	36,202	40,385	(9,163)	31,222
150	-	607	757	(346)	411
-	167	-	167	2,893	3,060
-	-	12	12	1,051	1,063
-	-	1,258	1,258	(1,753)	(495)
-	6,597	4	6,601	(3,183)	3,418
-	67	3,108	3,175	60	3,235
-	-	-	-	2,660	2,660
-	-	1	1	827	828
-	-	-	-	87	87
-	434	8,037	8,471	(3,342)	5,129
-	70	-	70	2,667	2,737
-	-	-	-	(17)	(17)
\$ 250	\$ 17,824	\$ 76,283	\$ 94,357	\$ 2,303	\$ 96,660

**NORMAN COUNTY
ADA, MINNESOTA**

Schedule 9

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

Shared Revenue

State

Highway users tax	\$	4,581,799
County program aid		452,744
PERA rate reimbursement		13,183
Disparity reduction aid		15,815
Police aid		19,625
Market value credit		283,896
Market value credit - mobile home		885
		885

Total Shared Revenue **\$ 5,367,947**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	570,148
		570,148

Payments

Local

Payments in lieu of taxes	\$	394
		394

Grants

State

Minnesota Department/Board of		
Corrections	\$	1,834
Public Safety		73,124
Transportation		113,486
Natural Resources		58,901
Human Services		419,054
Office of Environmental Assistance		60,932
Examining boards		1,790
Trial courts		536
		536

Total State **\$ 729,657**

Federal

Department of		
Justice	\$	25,882
Transportation		20,339
Health and Human Services		192,919
Homeland Security		81,462
		81,462

Total Federal **\$ 320,602**

Total State and Federal Grants **\$ 1,050,259**

Total Intergovernmental Revenue **\$ 6,988,748**

This page was left blank intentionally.

**NORMAN COUNTY
ADA, MINNESOTA**

Schedule 10

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-6 Segregation of Duties

Due to the limited number of personnel within several Norman County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. In addition, the County's computer systems are operating below the recommended security levels for adequate segregation of duties within the data processing function. This is not unusual in operations the size of Norman 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 internal control point of view.

We recommend that Norman County's management be aware of the lack of segregation of duties within the accounting and data processing functions and, if possible, implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

ITEM ARISING THIS YEAR

04-1 Gravel Stockpile Inventory

The Norman County Highway Department maintains a perpetual inventory system of parts, fuel, field materials, and other supplies. Each year, Highway Department employees count inventory items including parts, fuel, and certain field materials such as culverts, signs, and sign materials; however, they do not measure the gravel stockpile inventory. Gravel stockpile inventory makes up approximately 80 percent of the Highway Department's total inventory.

The County gravel stockpiles are located at several different locations. Gravel is purchased and stockpiled for a particular project based on the estimated need. The valuation for each stockpile is the purchase price of the gravel, less the loads charged to the project based on haul sheets.

To improve control over gravel stockpile inventory, gravel should be periodically measured and compared to the costing system. This comparison would ensure that errors are detected timely and that haul sheets are filled out correctly and on a regular basis.

We recommend the County implement procedures to measure the gravel stockpiles and compare the quantity to the inventory system at least once a year. If the measurement is significantly different from the inventory system, the system should be adjusted to the actual measurement.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 Ditch Cash Balance Deficits

Ten of the 35 individual ditch systems had cash deficits totaling \$32,978 at December 31, 2004, with the largest being \$16,594. Minn. Stat. § 385.31 permits payment of expenditures provided the fund has money for that purpose. Minn. Stat. § 103E.655, subd. 2, allows for loans to be made from ditch systems with surplus funds or from the General Fund to a ditch system with insufficient cash to pay expenditures against it. This statute requires the loan to be repaid with interest. Allowing a ditch fund to maintain a cash deficit constitutes an interest-free loan and is not in compliance with Minnesota law.

We recommend the County eliminate the individual ditch system cash deficits by borrowing from an eligible fund with a surplus cash balance and repay the loan with interest, or by levying assessments pursuant to Minn. Stat. § 103E.735, which permits the accumulation of a surplus balance for future repairs and maintenance costs of a ditch system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-9 Ditch Fund Balance Deficit

Twelve of the 35 individual ditch funds had negative unreserved, undesignated fund balances totaling \$41,496 at December 31, 2004, with the largest individual ditch fund balance deficit being \$16,197.

Minn. Stat. § 103E.735, subd. 1, provides that a repair fund may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

We recommend that the County Board levy assessments pursuant to Minn. Stat. § 103E.735, subd. 1, to accumulate a surplus balance to provide for the repair and maintenance costs of a ditch system.

PREVIOUSLY REPORTED ITEM RESOLVED

Capital Asset Accounting System (01-1)

To comply with Governmental Accounting Standards Board (GASB) Statement 34, the County needed to establish accounting policies for capital assets and evaluate its capital asset accounting system to determine if it is capable of providing the information needed to comply with the reporting requirements of GASB Statement 34.

Resolution

The County established the capital asset policies necessary for the implementation of GASB Statement 34. The capital asset accounting system provides the information needed for GASB Statement 34 reporting.

This page was left blank intentionally.



STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

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

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
Norman County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Norman County as of and for the year ended December 31, 2004, and have issued our report thereon dated December 8, 2005. 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 Norman 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 Recommendations as items 96-6 and 04-1.

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, we believe neither of the reportable conditions indicated above is a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Norman County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 96-1.

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: December 8, 2005