

STATE OF MINNESOTA

Office of the State Auditor



**Rebecca Otto
State Auditor**

**NORMAN COUNTY
ADA, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 2012

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**NORMAN COUNTY
ADA, MINNESOTA**

For the Year Ended December 31, 2012



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

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**NORMAN COUNTY
ADA, MINNESOTA**

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ADA, MINNESOTA**

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**NORMAN COUNTY
ADA, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2012**

		<u>Term Expires</u>
Elected		
Commissioners		
Chair	Marvin Gunderson	District 1 January 2017
Board Member	Nathan Redland	District 2 January 2015
Board Member	Steve Jacobson	District 3 January 2017
Board Member	Lee Ann Hall	District 4 January 2015
Vice Chair	Steven Bommersbach	District 5 January 2017
Attorney	James Brue*	January 2015
Auditor-Treasurer	Richard D. Munter	January 2015
County Recorder	Kari Aanenson	January 2015
Registrar of Deeds	Kari Aanenson	January 2015
County Sheriff	Jeremy Thornton	January 2015
Appointed		
Assessor	James Haley	December 2016
County Engineer	Milton Alm	May 2013
Coroner	Dr. Mary Ann Sens**	Indefinite
Court Administrator	Lori Wiebolt	Indefinite
Emergency Services	Josh Holte	May 2016
Veterans Service Officer	John Rosenberger	December 2016
Welfare Board		
Chair	Steven Bommersbach	July 2013
Vice Chair	Nathan Redland	July 2013
Secretary	Marian Cerkowniak	May 2014
Member	Marvin Gunderson	January 2017
Member	Carol Sorenson	May 2013
Member	Lee Ann Hall	January 2015
Member	Steve Jacobson	January 2017
Director	Chris Kujava	Indefinite

*James Brue was appointed when the previous attorney resigned. He is the current County Attorney until January 2015.

**Norman County does not have a signed contract at the present time; therefore, the term of the Coroner's position is indefinite until there is a signed contract.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Norman County

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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 December 31, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Norman County's basic financial statements. The supplementary information, which includes the combining and individual fund statements, budgetary presentations for nonmajor funds, schedule of deposits and investments, ditch schedules, and schedule of intergovernmental revenue, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated June 7, 2013, 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, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Norman County's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 7, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**NORMAN COUNTY
ADA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(Unaudited)**

Norman County's Management's Discussion and Analysis (MD&A) provides an overview of County financial activities for the fiscal year ended December 31, 2012. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with 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 \$60,998,537 at the close of 2012. Of this amount, \$4,047,403 (unrestricted net position) may be used to meet Norman County's ongoing obligations to citizens and creditors.

At the close of 2012, Norman County's governmental funds reported combined ending fund balances of \$5,133,943, a decrease of \$157,007 in comparison with the prior year. Approximately 25 percent of that total amount, or \$1,305,930, is nonspendable or restricted.

At the close of 2012, unassigned fund balance for the General Fund was \$3,624,487, or 83.9 percent, of total General Fund expenditures.

Norman County currently has \$241,300 of bonded indebtedness. The money was used for the Perley and Hendrum dike projects completed the summer of 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to Norman County's basic financial statements. The County's basic financial statements are comprised of 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 position presents information on all of Norman County's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 (for example, uncollected taxes and earned but unused vacation leave).

The County's government-wide financial statements report functions of the County that are 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, and conservation of natural resources.

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 that have been 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 balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Norman County reports eight 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 balance for the General Fund, Road and Bridge Special Revenue Fund, and Human Services Special Revenue Fund, which are considered to be major funds. Data from the other five 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. The County's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. These activities 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 and expenditures of federal awards.

Norman County adopts an annual appropriated budget for its General Fund and all special revenue funds, except for the Ditch Special Revenue Fund and Gravel Reserve Tax Special Revenue Fund. 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 position serves as a useful indicator of the County's financial position. Norman County's assets exceeded liabilities by \$60,998,537 at the close of 2012. The largest portion of Norman County's net position (88 percent) reflects its net investment in capital assets (land, infrastructure, buildings, and equipment). However, it should be noted that these assets are not available for future spending.

Governmental Net Position

	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 8,786,433	\$ 9,746,640
Capital assets	<u>53,665,615</u>	<u>49,884,988</u>
Total Assets	<u>\$ 62,452,048</u>	<u>\$ 59,631,628</u>
Long-term liabilities outstanding	\$ 789,321	\$ 783,864
Other liabilities	<u>664,190</u>	<u>423,958</u>
Total Liabilities	<u>\$ 1,453,511</u>	<u>\$ 1,207,822</u>
Net Position		
Net investment in capital assets	\$ 53,661,089	\$ 49,879,048
Restricted	3,290,045	3,611,647
Unrestricted	<u>4,047,403</u>	<u>4,933,111</u>
Total Net Position	<u>\$ 60,998,537</u>	<u>\$ 58,423,806</u>

The unrestricted net position amount of \$4,047,403 as of December 31, 2012, may be used to meet the County’s ongoing obligations to citizens and creditors.

Governmental Activities

Norman County’s activities increased net position by \$2,574,731, or 4.4 percent, over the 2011 net position. The key elements of the increase were an increase in net investment in capital assets and an increase in restricted for highways and streets in 2012.

Changes in Net Position

	<u>2012</u>	<u>2011</u>
Revenues		
Program revenues		
Charges for services	\$ 916,048	\$ 846,012
Operating grants and contributions	6,869,945	6,574,307
Capital grants and contributions	2,215,886	1,153,764
General revenues		
Property taxes	4,077,245	3,625,515
Gravel taxes	36,973	33,148
Grants and contributions not restricted to specific programs	390,064	539,982
Other	<u>279,058</u>	<u>387,215</u>
Total Revenues	<u>\$ 14,785,219</u>	<u>\$ 13,159,943</u>

	<u>2012</u>	<u>2011</u>
Expenses		
General government	\$ 1,966,403	\$ 1,240,843
Public safety	1,221,170	1,219,221
Highways and streets	5,643,295	4,751,454
Sanitation	361,758	362,326
Human services	2,158,161	2,196,903
Health	302,492	300,364
Culture and recreation	133,554	115,841
Conservation of natural resources	413,797	256,598
Economic development	-	6,699
Debt service	9,858	11,910
	<u> </u>	<u> </u>
Total Expenses	\$ 12,210,488	\$ 10,462,159
	<u> </u>	<u> </u>
Increase in Net Position	\$ 2,574,731	\$ 2,697,784
	<u> </u>	<u> </u>
Net Position, January 1	58,423,806	55,726,022
	<u> </u>	<u> </u>
Net Position, December 31	\$ 60,998,537	\$ 58,423,806
	<u> </u>	<u> </u>

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, unrestricted 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 \$5,133,943, a decrease of \$157,007 in comparison with the prior year.

The General Fund is the chief operating fund of Norman County. At the end of the current fiscal year, unrestricted fund balance of the General Fund was \$3,629,487, while total fund balance was \$4,016,563. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total fund expenditures. Unrestricted fund balance represents 83.9 percent of total General Fund expenditures. The County Board has determined that the County should maintain a minimum unrestricted fund balance of 16 percent of the total General Fund expenditures. At December 31, 2012, the unrestricted fund balance of the General Fund is well above the minimum balance established by the Board. In 2012, fund balance in the General Fund decreased by \$105,771.

The Road and Bridge Special Revenue Fund's fund balance decreased by \$48,084 in 2012. The main reason for this decrease was increased expenditures for highway projects.

The Human Services Special Revenue Fund's balance decreased by \$96,557 due to excess expenditures over revenues. Excess expenditures over revenues were budgeted to reduce the fund balance and provide additional levy revenue for other funds.

General Fund Budgetary Highlights

The actual revenues were higher than budgeted revenues by \$544,509, and actual expenditures were higher than budgeted expenditures by \$716,136. The largest revenue variance was in intergovernmental revenue received in excess of what was budgeted. The largest expenditure variances were for planning and zoning, county building and courts expenditures, general government, E-911 system for public safety, ambulance expenditures for health, and water plans expenditures for conservation of natural resources.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2011, was \$53,665,615 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The total increase in Norman County's investment in capital assets for the current fiscal year was eight percent. The increases were attributed primarily for infrastructure.

**Governmental Capital Assets
(Net of Depreciation)**

	2012	2011
Land	\$ 943,843	\$ 907,743
Construction in progress	245,031	904,464
Infrastructure	48,479,573	44,563,212
Buildings	2,264,883	2,169,324
Machinery, furniture, and equipment	1,732,285	1,340,245
Total	\$ 53,665,615	\$ 49,884,988

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 \$241,300 of bonded indebtedness. This debt was issued for the Perley and Hendrum dike projects completed in 2011.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- Norman County is very dependent on state-paid aids, credits, and grants. Should the State of Minnesota significantly change the formula for state-aid payments to the County, it would have a significant impact on next year's budget. Due to the cuts in the state-aid payments, the Norman County budget is not balanced for 2012.
- The County is reviewing revenue sources and considering cost-effective and efficient ways to deliver Norman County's programs and services that will influence future budgets.

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.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT 1

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

Assets

Cash and pooled investments	\$	4,816,596
Taxes receivable delinquent		77,710
Special assessments receivable		
Prior - net		39,222
Deferred - net		128,582
Accounts receivable - net		97,618
Accrued interest receivable		1,664
Due from other governments		3,011,410
Inventories		504,231
Advance to watershed		109,400
Capital assets		
Non-depreciable		1,188,874
Depreciable - net of accumulated depreciation		52,476,741
		52,476,741
Total Assets	\$	62,452,048

Liabilities

Accounts payable	\$	189,868
Salaries payable		22,255
Contracts payable		412,585
Due to other governments		31,454
Customer deposits		4,152
Accrued interest payable		3,876
Long-term liabilities		
Due within one year		141,043
Due in more than one year		648,278
		648,278
Total Liabilities	\$	1,453,511

Net Position

Net investment in capital assets	\$	53,661,089
Restricted for		
General government		278,032
Public safety		114,044
Highways and streets		2,592,746
Conservation of natural resources		245,425
Debt service		59,798
Unrestricted		4,047,403
		4,047,403
Total Net Position	\$	60,998,537

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT 2

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

	Program Revenues			Net (Expense)	
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position	
<u>Functions/Programs</u>					
Primary government					
Governmental activities					
General government	\$ 1,966,403	\$ 194,708	\$ 187,258	\$ -	\$ (1,584,437)
Public safety	1,221,170	57,687	325,621	-	(837,862)
Highways and streets	5,643,295	49,196	4,764,863	2,215,886	1,386,650
Sanitation	361,758	257,072	60,433	-	(44,253)
Human services	2,158,161	350,692	1,063,709	-	(743,760)
Health	302,492	5,408	213,091	-	(83,993)
Culture and recreation	133,554	-	191,220	-	57,666
Conservation of natural resources	413,797	1,285	63,750	-	(348,762)
Interest	9,858	-	-	-	(9,858)
Total Governmental Activities	<u>\$ 12,210,488</u>	<u>\$ 916,048</u>	<u>\$ 6,869,945</u>	<u>\$ 2,215,886</u>	<u>\$ (2,208,609)</u>
 General Revenues					
Property taxes				\$ 4,077,245	
Gravel taxes				36,973	
Mortgage registry and deed taxes				4,485	
Grants and contributions not restricted to specific programs				390,064	
Payments in lieu of tax				28,855	
Investment earnings				9,877	
Miscellaneous				186,034	
Rental income				49,807	
Total general revenues				<u>\$ 4,783,340</u>	
Change in net position					<u>\$ 2,574,731</u>
Net Position - Beginning					<u>58,423,806</u>
Net Position - Ending					<u>\$ 60,998,537</u>

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT 3

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 3,225,888	\$ -	\$ 1,101,527	\$ 312,976	\$ 4,640,391
Petty cash and change funds	4,600	200	-	-	4,800
Undistributed cash in agency funds	108,489	26,996	18,031	17,889	171,405
Taxes receivable delinquent	50,188	16,076	10,718	728	77,710
Special assessments receivable					
Delinquent	37,461	-	-	1,761	39,222
Deferred	-	-	-	128,582	128,582
Accounts receivable	28,830	18,873	8,034	41,025	96,762
Accrued interest receivable	1,664	-	-	-	1,664
Due from other funds	648,652	55	-	-	648,707
Due from other governments	27,578	2,899,688	84,144	-	3,011,410
Inventories	-	504,231	-	-	504,231
Advance to watershed	-	-	-	109,400	109,400
Total Assets	<u>\$ 4,133,350</u>	<u>\$ 3,466,119</u>	<u>\$ 1,222,454</u>	<u>\$ 612,361</u>	<u>\$ 9,434,284</u>

**NORMAN COUNTY
ADA, MINNESOTA**

**EXHIBIT 3
(Continued)**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 27,179	\$ 67,175	\$ 83,545	\$ 11,969	\$ 189,868
Salaries payable	8,663	9,485	4,107	-	22,255
Contracts payable	-	412,585	-	-	412,585
Due to other funds	-	647,796	-	55	647,851
Due to other governments	4,629	828	7,773	18,224	31,454
Customer deposits	725	-	-	3,427	4,152
Deferred revenue - unavailable	75,591	2,742,299	9,247	165,039	2,992,176
Total Liabilities	\$ 116,787	\$ 3,880,168	\$ 104,672	\$ 198,714	\$ 4,300,341
Fund Balances					
Nonspendable					
Inventories	\$ -	\$ 504,231	\$ -	\$ -	\$ 504,231
Advance to watershed	-	-	-	109,400	109,400
Restricted for					
Debt service	-	-	-	59,798	59,798
Law library	49,223	-	-	-	49,223
Recorder's technology equipment	89,045	-	-	-	89,045
Real estate tax shortfall	21,160	-	-	-	21,160
E-911	99,946	-	-	-	99,946
Recorder's compliance	112,395	-	-	-	112,395
HAVA	6,066	-	-	-	6,066
Gravel pit postclosure	-	-	-	78,595	78,595
Ditch maintenance and construction	-	-	-	166,830	166,830
Specific purposes - by donors - K9	9,098	-	-	-	9,098
Attorney forfeitures	143	-	-	-	143
Committed to					
Township road restoration	-	205,950	-	-	205,950
Sheriff's contingencies	5,000	-	-	-	5,000
Assigned to					
Human services	-	-	1,117,782	-	1,117,782
County homes	-	-	-	51,970	51,970
Unassigned	3,624,487	(1,124,230)	-	(52,946)	2,447,311
Total Fund Balances	\$ 4,016,563	\$ (414,049)	\$ 1,117,782	\$ 413,647	\$ 5,133,943
Total Liabilities and Fund Balances	\$ 4,133,350	\$ 3,466,119	\$ 1,222,454	\$ 612,361	\$ 9,434,284

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)	\$	5,133,943
Amounts reported for governmental activities in the statement of net position 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.		53,665,615
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,992,176
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (241,300)	
Capital lease	(4,526)	
Accrued interest payable	(3,876)	
Compensated absences	(378,961)	
Net OPEB liability	(164,534)	(793,197)
Net Position of Governmental Activities (Exhibit 1)		<u>\$ 60,998,537</u>

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT 5

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues					
Taxes	\$ 2,657,663	\$ 854,816	\$ 548,341	\$ 49,537	\$ 4,110,357
Special assessments	209,000	-	-	175,012	384,012
Licenses and permits	8,159	-	-	400	8,559
Intergovernmental	1,013,007	7,977,641	1,118,029	60,778	10,169,455
Charges for services	231,857	49,442	294,273	256,689	832,261
Gifts and contributions	2,796	-	-	-	2,796
Investment earnings	9,921	-	-	-	9,921
Miscellaneous	82,861	145,388	56,419	26,647	311,315
Total Revenues	\$ 4,215,264	\$ 9,027,287	\$ 2,017,062	\$ 569,063	\$ 15,828,676
Expenditures					
Current					
General government	\$ 1,932,466	\$ -	\$ -	\$ 1,620	\$ 1,934,086
Public safety	1,617,491	-	-	-	1,617,491
Highways and streets	-	8,787,984	-	-	8,787,984
Sanitation	-	-	-	361,487	361,487
Human services	9,000	-	2,111,655	9,837	2,130,492
Health	302,492	-	-	-	302,492
Culture and recreation	133,554	-	-	-	133,554
Conservation of natural resources	326,032	-	-	87,381	413,413
Intergovernmental					
Highways and streets	-	309,669	-	-	309,669
Debt service					
Principal	-	-	1,414	6,000	7,414
Interest	-	-	424	9,333	9,757
Administrative (fiscal) charges	-	-	126	-	126
Total Expenditures	\$ 4,321,035	\$ 9,097,653	\$ 2,113,619	\$ 475,658	\$ 16,007,965
Excess of Revenues Over (Under) Expenditures	\$ (105,771)	\$ (70,366)	\$ (96,557)	\$ 93,405	\$ (179,289)
Fund Balance - January 1	4,122,334	(365,965)	1,214,339	320,242	5,290,950
Increase (decrease) in inventories	-	22,282	-	-	22,282
Fund Balance - December 31	\$ 4,016,563	\$ (414,049)	\$ 1,117,782	\$ 413,647	\$ 5,133,943

The notes to the financial statements are an integral part of this statement.

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**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (179,289)

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

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 assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net position differs from the change in fund balance by the net book value of the assets disposed of.

Expenditures for general capital assets and infrastructure	\$ 6,012,591	
Current year depreciation	<u>(2,231,964)</u>	3,780,627

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

Deferred revenue - December 31	\$ 2,992,176	
Deferred revenue - January 1	<u>(4,035,633)</u>	(1,043,457)

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net position. Also, governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of net position.

Principal repayments		
General obligation bonds	\$ 6,000	
Capital lease	<u>1,414</u>	7,414

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	\$ 25	
Change in compensated absences	30,477	
Change in inventories	22,282	
Change in net OPEB liability	<u>(43,348)</u>	<u>9,436</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 2,574,731

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FIDUCIARY FUNDS

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**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT 7

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

	Children's Collaborative Investment Trust	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 15,302	\$ 194,749
Accrued interest receivable	17	-
Total Assets	\$ 15,319	\$ 194,749
<u>Liabilities</u>		
Due to other funds	\$ -	\$ 856
Due to other governments	-	188,179
Funds held in trust	-	5,714
Total Liabilities	\$ -	\$ 194,749
<u>Net Position</u>		
Net position held in trust for pooled participants	\$ 15,319	

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Children's Collaborative Investment Trust</u>
<u>Additions</u>	
Contributions from participants	\$ 29,832
Investment earnings	
Interest	<u>129</u>
Total Additions	\$ 29,961
<u>Deductions</u>	
Pool participant withdrawals	<u>32,938</u>
Change in Net Position	\$ (2,977)
Net Position - Beginning of the Year	<u>18,296</u>
Net Position - End of the Year	<u><u>\$ 15,319</u></u>

**NORMAN COUNTY
ADA, MINNESOTA**

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

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, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

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.

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net position, 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 position is reported in three parts: (1) net investment in capital assets; (3) restricted net position; and (4) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

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 accounted for in another fund.

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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 types:

The Debt Service Fund accounts for the resources accumulated and payments made for the principal and interest on long-term debt of the government.

The Children's Collaborative Investment Trust Fund accounts for the external pooled and non-pooled investments on behalf of the Children's Collaborative (Serving Norman County Families).

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

C. Measurement Focus and Basis of Accounting

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

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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 as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on 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 and then unrestricted resources as needed, unless the County Board takes specific action to appropriate those unrestricted resources.

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor-Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2012, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2012 were \$9,877.

2. External Investment Pools

Included in total cash and pooled investments are the assets held for the Norman County Children's Collaborative in an external investment pool. For the purposes of financial reporting, the Children's Collaborative portion of the County's pool of cash and investments is reported as an investment trust fund. Assets in the pool are reported at fair value based on quoted market prices. The pool is not subject to regulatory oversight, and the fair value of the position in the pool is the same as the

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

2. External Investment Pools (Continued)

pool shares. Fair value amounts are determined at year-end. The County has not provided or obtained any legally binding guarantees to support the value of the pool.

3. 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.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance nonspendable 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 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.

4. Advance to Watershed

Noncurrent portions of intergovernmental advances, reported as “Advance to Watershed,” are offset by a nonspendable fund balance, which indicates that they do not constitute available resources.

In 2012, an advance of \$109,400 was made to the Wild Rice Watershed District to cover expenses for Project 30. The balance plus accrued interest will be repaid in annual installments of \$34,450, with the first payment due February 1, 2016.

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. 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.

6. 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 historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	25 - 50
Improvements other than buildings	20 - 35
Public domain infrastructure	15 - 75
Furniture, equipment, and vehicles	3 - 15

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. 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.

8. 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.

9. 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 position. In the fund financial statements, the face amount of the debt issued is reported as an other financing source.

10. Classification of Net Position

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

Net investment in capital assets - represents capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

10. Classification of Net Position (Continued)

Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

11. Classification of Fund Balances

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

Nonspendable - amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - amounts in which constraints have been placed on the use of resources by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts.

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

11. Classification of Fund Balances (Continued)

Assigned - amounts the County intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Auditor-Treasurer who has been delegated that authority by Board resolution.

Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

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

12. Minimum Fund Balance

Unrestricted fund balance (committed, assigned, and unassigned) may be accessed in the event of unexpected expenditures up to the minimum established level upon approval of a budget revision by the County's Board. In the event of projected revenue shortfalls, it is the responsibility of the County Auditor-Treasurer to report the projections to the County's Board on a quarterly basis and shall be recorded in the minutes.

Any budget revision that will result in the unrestricted fund balance dropping below the minimum level will require the approval of 3/5 vote of the County Board.

**NORMAN COUNTY
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

12. Minimum Fund Balance (Continued)

The Fund Balance Policy establishes a minimum unrestricted fund balance equal to 16 percent of total General Fund expenditures. In the event that the balance drops below the established minimum level, the County Board will develop a plan to replenish the fund balance to the established minimum level within two years.

13. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

Road and Bridge Special Revenue Fund

The Road and Bridge Special Revenue Fund had a deficit fund balance of \$414,049 as of December 31, 2012. The fund balance deficit will be eliminated through a combination of spending reductions and increased allotments or a transfer from the General Fund.

Solid Waste Special Revenue Fund

The Solid Waste Special Revenue Fund had a deficit fund balance of \$888 as of December 31, 2012. The fund balance deficit will be eliminated through future collections.

**NORMAN COUNTY
ADA, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity (Continued)

Ditch Fund Deficits

Of 36 drainage systems, 4 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 fund balances of the Ditch Special Revenue and Debt Service Funds as of December 31, 2012:

Nonspendable fund balance	\$	109,400
Restricted fund balances		226,628
Unassigned fund balances		(52,058)
Total Fund Balances	\$	283,970

B. Excess of Expenditures Over Budget

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2012.

	Expenditures	Budget	Excess
General Fund	\$ 4,321,035	\$ 3,604,899	\$ 716,136
Road and Bridge Special Revenue Fund	9,097,653	8,292,545	805,108

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments follows:

Governmental activities		
Cash and pooled investments	\$	4,816,596
Fiduciary funds		
Cash and pooled investments		15,302
Investment trust fund		194,749
Agency funds		194,749
Total Cash and Investments	\$	5,026,647

**NORMAN COUNTY
ADA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2012, the County's deposits were not exposed to custodial credit risk.

**NORMAN COUNTY
ADA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

During the year ended December 31, 2012, the County had no investments.

**NORMAN COUNTY
ADA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

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

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes	\$ 77,710	\$ -
Special assessments	167,804	128,582
Accounts	97,618	-
Interest	1,664	-
Due from other governments	3,011,410	-
Total	\$ 3,356,206	\$ 128,582

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 907,743	\$ 36,100	\$ -	\$ 943,843
Construction in progress	904,464	245,031	904,464	245,031
Total capital assets not depreciated	\$ 1,812,207	\$ 281,131	\$ 904,464	\$ 1,188,874
Capital assets depreciated				
Buildings	\$ 3,588,443	\$ 192,163	\$ -	\$ 3,780,606
Machinery, furniture, and equipment	4,673,110	748,662	627,146	4,794,626
Infrastructure	61,036,504	5,695,099	1,043,599	65,688,004
Total capital assets depreciated	\$ 69,298,057	\$ 6,635,924	\$ 1,670,745	\$ 74,263,236

**NORMAN COUNTY
ADA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 1,419,119	\$ 96,604	\$ -	\$ 1,515,723
Machinery, furniture, and equipment	3,332,865	356,622	627,146	3,062,341
Infrastructure	<u>16,473,292</u>	<u>1,778,738</u>	<u>1,043,599</u>	<u>17,208,431</u>
Total accumulated depreciation	<u>\$ 21,225,276</u>	<u>\$ 2,231,964</u>	<u>\$ 1,670,745</u>	<u>\$ 21,786,495</u>
Total capital assets depreciated, net	<u>\$ 48,072,781</u>	<u>\$ 4,403,960</u>	<u>\$ -</u>	<u>\$ 52,476,741</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 49,884,988</u>	<u>\$ 4,685,091</u>	<u>\$ 904,464</u>	<u>\$ 53,665,615</u>

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

General government	\$ 60,857
Public safety	49,843
Highways and streets, including depreciation of infrastructure assets	2,093,804
Human services	<u>27,460</u>
Total Depreciation Expense	<u>\$ 2,231,964</u>

B. Interfund Receivables and Payables

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

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Road and Bridge Special Revenue Fund	\$ 647,796
	Agency funds	<u>856</u>
Total Due to General Fund		\$ 648,652
Road and Bridge Special Revenue Fund	Other governmental funds	<u>55</u>
Total Due To/From Other Funds		<u>\$ 648,707</u>

**NORMAN COUNTY
ADA, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables and Payables

1. Due To/From Other Funds (Continued)

The amount due to the General Fund from the Road and Bridge Special Revenue Fund is \$647,796 to cover the cash deficit. The other 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, 2012, were as follows:

Accounts	\$	189,868
Salaries		22,255
Contracts		412,585
Due to other governments		31,454
Customer deposits		4,152
		4152
Total Payables	\$	660,314

2. Deferred Revenue

Deferred revenue as of December 31, 2012, for the County is as follows:

		Deferred Unavailable
Governmental Funds		
Taxes	\$	68,374
Special assessments		195,243
State-aid highway allotments		2,492,752
Charges for services		1,978
Grants		233,699
Interest		130
		130
Total Governmental Funds	\$	2,992,176

**NORMAN COUNTY
ADA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Capital Leases

In 2011, the County entered into a lease agreement as lessee for financing the acquisition of a Canon copier. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The capital lease consists of the following at December 31, 2012:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
2011 copier	2015	Monthly	\$ 153	\$ 6,276	\$ 4,526

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2012, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2013	\$ 1,965
2014	1,965
2015	1,475
Total minimum lease payments	\$ 5,405
Less: amount representing interest	(879)
Present Value of Minimum Lease Payments	<u>\$ 4,526</u>

4. Long-Term Debt

Bonds Payable

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2012</u>
General obligation bonds 2010A G.O. Watershed Bonds	2031	\$6,000 - \$15,000	1.00 - 5.25	\$ 247,300	<u>\$ 241,300</u>

**NORMAN COUNTY
ADA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2013	\$ 11,000	\$ 9,225
2014	11,000	9,049
2015	11,000	8,832
2016	12,000	8,564
2017	12,000	8,246
2018 - 2022	65,500	34,683
2023 - 2027	61,000	22,219
2028 - 2031	57,800	6,091
Total	<u>\$ 241,300</u>	<u>\$ 106,909</u>

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 247,300	\$ -	\$ 6,000	\$ 241,300	\$ 11,000
Capital lease	5,940	-	1,414	4,526	1,533
Net OPEB liability	121,186	43,348	-	164,534	-
Compensated absences	409,438	290,323	320,800	378,961	128,510
Total Long-Term Liabilities	<u>\$ 783,864</u>	<u>\$ 333,671</u>	<u>\$ 328,214</u>	<u>\$ 789,321</u>	<u>\$ 141,043</u>

**NORMAN COUNTY
ADA, MINNESOTA**

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). PERA administers the General 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.

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

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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

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

**NORMAN COUNTY
ADA, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plan

Plan Description (Continued)

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 Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service.

For General 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. Normal retirement age is 55 for Public Employees Police and Fire Fund members and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent.

**NORMAN COUNTY
ADA, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plan

Funding Policy (Continued)

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

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

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

	2012	2011	2010
General Employees Retirement Fund	\$ 187,150	\$ 188,166	\$ 172,729
Public Employees Police and Fire Fund	38,885	38,692	38,354

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

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share.

**NORMAN COUNTY
ADA, MINNESOTA**

4. Pension Plans

B. Defined Contribution Plan (Continued)

Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

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

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 1,670	\$ 1,670
Percentage of covered payroll	5.0%	5.0%

Required contribution rates were 5.0 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

Norman County provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Norman County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2012, there were 77 participants in the plan, including 6 retirees.

**NORMAN COUNTY
ADA, MINNESOTA**

4. Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	\$	80,210
Interest on net OPEB obligation		5,453
Adjustment to ARC		(7,409)

Annual OPEB cost (expense)	\$	78,254
Contributions made		(34,906)

Increase in net OPEB obligation	\$	43,348
Net OPEB Obligation - Beginning of Year		121,186

Net OPEB Obligation - End of Year	\$	164,534

The County's annual OPEB cost for December 31, 2012, was \$78,254. The percentage of annual OPEB cost contributed to the plan was 44.6 percent, and the net OPEB obligation for 2012 was \$164,534. The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010, 2011, and 2012, was as follows:

<u>Fiscal Year-End</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2010	\$ 65,526	\$ 26,601	40.6%	\$ 84,629
December 31, 2011	64,894	28,337	43.7	121,186
December 31, 2012	78,254	34,906	44.6	164,534

**NORMAN COUNTY
ADA, MINNESOTA**

4. Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial accrued liability for benefits was \$660,548, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$660,548. The covered payroll (annual payroll of active employees covered by the plan) was \$2,830,548, and the ratio of the UAAL to the covered payroll was 23.3 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, will present multi-year trend information as it becomes available about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2012, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Norman County's implicit rate of return on the General Fund. The annual health care cost trend is 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 6 years. Both rates included a 2.5 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2012, was 27 years.

**NORMAN COUNTY
ADA, MINNESOTA**

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 Intergovernmental 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 MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$460,000 per claim in 2012 and \$470,000 per claim in 2013. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

6. Summary of Significant Contingencies and Other Items

A. 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.

**NORMAN COUNTY
ADA, MINNESOTA**

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

B. Project 9

On July 21, 2005, Norman County entered into a joint powers agreement with Clay County, pursuant to Minn. Stat. § 471.59. Clay County sold \$830,000 of bonds on behalf of the Wild Rice Watershed District for Project 9. 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.

C. 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 position of Tri-County Community Corrections at that time shall be divided among the member counties in the agreed-upon proportions of Norman County (10 percent), Polk County (85 percent), and Red Lake County (5 percent).

Tri-County Community Corrections' long-term obligations consisted of \$208,369 for compensated absences and \$221,345 for OPEB at December 31, 2011 (latest information available). 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 2011 was \$385,865.

Complete financial information can be obtained from the Polk County Auditor's Office or the Northwest Regional Corrections Center located at 816 Marin Avenue, Suite 110, Crookston, Minnesota 56716.

**NORMAN COUNTY
ADA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Norman-Mahnomen Community Health Board

The Multi-County Nursing Service was established in 1997 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and included Becker, Mahnomen, and Norman Counties. On June 24, 2003, the Becker County Board passed a resolution to withdraw from the Multi-County Nursing Service as of January 1, 2005. On January 1, 2005, Norman and Mahnomen Counties amended the joint powers agreement forming the Multi-County Nursing Service and started doing business as Norman-Mahnomen Public Health. Effective December 31, 2012, the Norman-Mahnomen Community Health Board was dissolved. Effective January 1, 2013, the Norman-Mahnomen Board of Health was created and will do business under the name Norman-Mahnomen Public Health. The purpose of Norman-Mahnomen Public Health is the development, implementation, and operation of public health services throughout the member counties.

Control of Norman-Mahnomen Public Health was vested in the Norman-Mahnomen Board of Health, which consisted of six members. Norman and Mahnomen Counties each appoint three members.

In the event of withdrawal from the Norman-Mahnomen Community Health Board, 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.

Norman-Mahnomen Public Health's long-term liabilities were \$3,868 at December 31, 2012. Financing is provided by state and federal grants, appropriations from member counties, charges for services, and miscellaneous revenues. Norman County's contribution for 2012 was \$90,632.

Complete financial information can be obtained from the Norman-Mahnomen Board of Health, 15 East 2nd Avenue, Room 107, Ada, Minnesota 56510.

**NORMAN COUNTY
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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Norman County-Ada-Twin Valley Joint Airport Authority

The Norman County-Ada-Twin Valley Joint 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. 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 termination. Any party terminating the agreement shall transfer its interest in the real and personal assets to the remaining parties for consideration of \$1.

Financing of the capital costs and operations is provided by state and federal grants, charges for services, and appropriations from Norman County and the Cities of Ada and Twin Valley. Norman County's contribution for 2012 was \$4,030.

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

Northwest Minnesota Regional Radio Board

The Northwest Minnesota Regional Radio Board's convening meeting was held February 6, 2008, pursuant to the authority conferred upon the member parties by Minn. Stat. §§ 471.59 and 403.39, and includes the City of Moorhead and the Counties of Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomon, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau.

The purpose of the Northwest Minnesota Regional Radio Board is to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) owned and operated by the State of Minnesota.

**NORMAN COUNTY
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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northwest Minnesota Regional Radio Board (Continued)

Control of the Northwest Minnesota Regional Radio Board is vested in the Northwest Minnesota Regional Radio Board, which is composed of one Commissioner of each county appointed by their respective County Board and one City Council member from each city appointed by their respective City Council, as provided in the Northwest Minnesota Regional Radio Board's bylaws.

In the event of dissolution of the Northwest Minnesota Regional Radio Board, all property, assets, and funds of the Board shall be distributed to the parties of the agreement upon termination in direct proportion to their participation and contribution. Any city or county that has withdrawn from the agreement prior to termination of the Board shall share in the distribution of property, assets, and funds of the Board only to the extent they shared in the original expense.

The Northwest Minnesota Regional Radio Board has no long-term debt. Financing is provided by appropriations from member parties and by state and federal grants.

Complete financial information can be obtained from the Northwest Minnesota Regional Radio Board, c/o Greater Northwest EMS, 2301 Johanneson Avenue N.W., Suite 103, Bemidji, Minnesota 56601.

D. 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.

**NORMAN COUNTY
ADA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Related Organizations (Continued)

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.

E. 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.

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.

**NORMAN COUNTY
ADA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations

Wild Rice Watershed District (Continued)

Control of the Watershed District is vested in the Board of Managers, composed of seven members appointed by the County Commissioners of Becker, Clay, Clearwater, Mahnomen, Norman, and Polk Counties. Three managers are appointed from Norman or Polk County, two managers from Mahnomen or Clearwater County, and two managers from Clay or Becker County.

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 position 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.

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.

**NORMAN COUNTY
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6. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations

Minnesota Red River Basin of the North Joint Powers Agreement (Continued)

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 2012 was \$186.

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

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, Norman-Mahnomen Community Health Board, 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.

Financing is provided by state and federal grants and contributions from its member parties. Complete financial information can be obtained from Norman County Social Services, 15 Second Avenue East, Ada, Minnesota 56510.

**NORMAN COUNTY
ADA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

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, comprising 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 that 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.

**NORMAN COUNTY
ADA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

Agassiz Regional Library

The Agassiz Regional Library was formed pursuant to Minn. Stat. §§ 134.20 and 471.59, effective January 1, 1981, and includes Becker, Clay, Clearwater, Mahnomon, Norman, Polk, and Wilkin Counties. Control of the Library is vested in the Agassiz Regional Library Board, which has 23 members with staggered terms made up of the following: one member appointed by each Board of County Commissioners who may be a member of the Board of Commissioners; one member appointed by each participating city; and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. Norman County contributed \$79,955 to the Agassiz Regional Library during 2012.

Homeland Security and Emergency Management (HSEM) Region 3 Emergency Managers

The HSEM Region 3 Emergency Managers Joint Powers Board was formed pursuant to Minn. Stat. § 471.59, and includes Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomon, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The Board was established to engage in planning, training, and/or the purchase and use of equipment in order to better respond to emergencies and other disasters within the HSEM Region 3, specifically, within the jurisdictional boundaries of the 14 member counties. Control is vested in the HSEM Region 3 Emergency Managers Board, which is composed of 14 representatives appointed by each Board of County Commissioners. Norman County's responsibility does not extend beyond making this appointment.

REQUIRED SUPPLEMENTARY INFORMATION

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**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT A-1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,771,120	\$ 2,771,120	\$ 2,657,663	\$ (113,457)
Special assessments	-	-	209,000	209,000
Licenses and permits	6,132	6,132	8,159	2,027
Intergovernmental	592,605	592,605	1,013,007	420,402
Charges for services	217,669	217,669	231,857	14,188
Gifts and contributions	-	-	2,796	2,796
Investment earnings	22,500	22,500	9,921	(12,579)
Miscellaneous	60,729	60,729	82,861	22,132
Total Revenues	\$ 3,670,755	\$ 3,670,755	\$ 4,215,264	\$ 544,509
Expenditures				
Current				
General government				
Commissioners	\$ 183,570	\$ 183,570	\$ 182,071	\$ 1,499
Courts	40,000	40,000	93,007	(53,007)
Law library	4,300	4,300	6,655	(2,355)
County auditor-treasurer	277,640	277,640	270,529	7,111
County assessor	210,774	210,774	197,473	13,301
Elections	38,200	38,200	32,076	6,124
Accounting and auditing	50,000	50,000	53,767	(3,767)
Data processing	63,500	63,500	56,481	7,019
Attorney	196,030	196,030	159,187	36,843
Victim assistance	58,642	58,642	57,299	1,343
Recorder	260,443	260,443	249,579	10,864
Planning and zoning	27,567	27,567	146,356	(118,789)
County buildings	81,100	81,100	97,594	(16,494)
Buildings and plant	158,565	158,565	133,128	25,437
Veterans service officer	73,476	73,476	77,231	(3,755)
Cemeteries	-	-	75	(75)
Unallocated - general government	77,723	77,723	119,958	(42,235)
Total general government	\$ 1,801,530	\$ 1,801,530	\$ 1,932,466	\$ (130,936)

**NORMAN COUNTY
ADA, MINNESOTA**

**EXHIBIT A-1
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 885,476	\$ 885,476	\$ 881,577	\$ 3,899
Coroner	19,104	19,104	14,143	4,961
Radio tower	4,500	4,500	1,745	2,755
Hazardous materials training	10,700	10,700	11,012	(312)
Safety coordinator	22,681	22,681	20,436	2,245
E-911 system	34,375	34,375	241,478	(207,103)
Community corrections	385,685	385,685	385,865	(180)
Civil defense	37,566	37,566	54,534	(16,968)
Police and fire	100	100	549	(449)
Other public safety	1,500	1,500	6,152	(4,652)
Total public safety	\$ 1,401,687	\$ 1,401,687	\$ 1,617,491	\$ (215,804)
Human services				
Senior citizen centers	\$ 7,000	\$ 7,000	\$ 7,000	\$ -
Retired senior volunteer program	1,000	1,000	2,000	(1,000)
Total human services	\$ 8,000	\$ 8,000	\$ 9,000	\$ (1,000)
Health				
Nursing service	\$ 90,632	\$ 90,632	\$ 90,632	\$ -
Ambulance	-	-	211,860	(211,860)
Total health	\$ 90,632	\$ 90,632	\$ 302,492	\$ (211,860)
Culture and recreation				
Historical society	\$ 7,650	\$ 7,650	\$ 7,650	\$ -
Agassiz trail project	500	500	14,884	(14,384)
Winter shows	800	800	800	-
County library	79,955	79,955	79,955	-
Celebrations	420	420	420	-
Snowmobile trails	-	-	29,845	(29,845)
Total culture and recreation	\$ 89,325	\$ 89,325	\$ 133,554	\$ (44,229)

**NORMAN COUNTY
ADA, MINNESOTA**

**EXHIBIT A-1
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Conservation of natural resources				
Cooperative extension	\$ 127,839	\$ 127,839	\$ 106,947	\$ 20,892
Soil and water conservation	60,200	60,200	63,054	(2,854)
Agricultural society	12,150	12,150	12,150	-
Forfeited tax	-	-	3,124	(3,124)
Weed control	8,350	8,350	165	8,185
Predator control	5,186	5,186	3,728	1,458
Water planning	-	-	136,864	(136,864)
	<hr/>	<hr/>	<hr/>	<hr/>
Total conservation of natural resources	\$ 213,725	\$ 213,725	\$ 326,032	\$ (112,307)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	\$ 3,604,899	\$ 3,604,899	\$ 4,321,035	\$ (716,136)
	<hr/>	<hr/>	<hr/>	<hr/>
Excess of Revenues Over (Under) Expenditures	\$ 65,856	\$ 65,856	\$ (105,771)	\$ (171,627)
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance - January 1	4,122,334	4,122,334	4,122,334	-
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance - December 31	\$ 4,188,190	\$ 4,188,190	\$ 4,016,563	\$ (171,627)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT A-2

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 871,262	\$ 871,262	\$ 854,816	\$ (16,446)
Intergovernmental	6,799,759	6,799,759	7,977,641	1,177,882
Charges for services	13,500	13,500	49,442	35,942
Miscellaneous	51,000	51,000	145,388	94,388
Total Revenues	\$ 7,735,521	\$ 7,735,521	\$ 9,027,287	\$ 1,291,766
Expenditures				
Current				
Highways and streets				
Administration	\$ 341,927	\$ 341,927	\$ 343,958	\$ (2,031)
Maintenance	1,852,135	1,852,135	1,928,904	(76,769)
Construction	5,495,073	5,495,073	5,885,825	(390,752)
Equipment and maintenance shop	603,410	603,410	629,297	(25,887)
Total highways and streets	\$ 8,292,545	\$ 8,292,545	\$ 8,787,984	\$ (495,439)
Intergovernmental				
Highways and streets	-	-	309,669	(309,669)
Total Expenditures	\$ 8,292,545	\$ 8,292,545	\$ 9,097,653	\$ (805,108)
Excess of Revenues Over (Under) Expenditures	\$ (557,024)	\$ (557,024)	\$ (70,366)	\$ 486,658
Fund Balance - January 1	(365,965)	(365,965)	(365,965)	-
Increase (decrease) in inventories	-	-	22,282	22,282
Fund Balance - December 31	\$ (922,989)	\$ (922,989)	\$ (414,049)	\$ 508,940

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT A-3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 564,175	\$ 564,175	\$ 548,341	\$ (15,834)
Intergovernmental	1,207,194	1,207,194	1,118,029	(89,165)
Charges for services	258,150	258,150	294,273	36,123
Miscellaneous	64,500	64,500	56,419	(8,081)
Total Revenues	\$ 2,094,019	\$ 2,094,019	\$ 2,017,062	\$ (76,957)
Expenditures				
Current				
Human services				
Income maintenance	\$ 737,469	\$ 737,469	\$ 706,150	\$ 31,319
Social services	1,431,167	1,431,167	1,405,505	25,662
Total human services	\$ 2,168,636	\$ 2,168,636	\$ 2,111,655	\$ 56,981
Debt service				
Principal	\$ -	\$ -	\$ 1,414	\$ (1,414)
Interest	-	-	424	(424)
Administrative - fiscal charges	-	-	126	(126)
Total debt service	\$ -	\$ -	\$ 1,964	\$ (1,964)
Total Expenditures	\$ 2,168,636	\$ 2,168,636	\$ 2,113,619	\$ 55,017
Excess of Revenues Over (Under) Expenditures	\$ (74,617)	\$ (74,617)	\$ (96,557)	\$ (21,940)
Fund Balance - January 1	1,214,339	1,214,339	1,214,339	-
Fund Balance - December 31	\$ 1,139,722	\$ 1,139,722	\$ 1,117,782	\$ (21,940)

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2009	\$ -	\$ 508,463	\$ 508,463	0.0%	\$2,750,246	18.5%
January 1, 2012	-	660,548	660,548	0.0	2,830,548	23.3

**NORMAN COUNTY
ADA, MINNESOTA**

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

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, Gravel Reserve Tax Special Revenue Fund, and the Ditch Debt Service 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 heads 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. During the year, the Board made no budgetary amendments.

2. Excess of Expenditures Over Budget

The following is a summary of individual major funds that had expenditures in excess of budget for the year ended December 31, 2012.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 4,321,035	\$ 3,604,899	\$ 716,136
Road and Bridge Special Revenue Fund	9,097,653	8,292,545	805,108

3. Other Postemployment Benefits Funding Status

The County implemented the requirements of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the fiscal year ended December 31, 2009. See Note 4.C. to the financial statements for more information.

**NORMAN COUNTY
ADA, MINNESOTA**

3. Other Postemployment Benefits Funding Status (Continued)

GASB Statement 45 requires a Schedule of Funding Progress - Other Postemployment Benefits for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported.

Currently, only two actuarial valuations are available. Future reports will provide additional trend analysis to meet the three most recent valuation funding status requirements as the information becomes available.

SUPPLEMENTARY INFORMATION

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**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 that 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, demolition landfill, and public education. Financing is provided by special assessments, charges for services, and intergovernmental revenues designated for environmental purposes.

DEBT SERVICE FUND

Ditch Fund - to account for the accumulation of resources and the payment of principal and interest of ditch bond issues.

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**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT B-1

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

	Special Revenue (Exhibit C-1)	Ditch Debt Service	Total (Exhibit 3)
<u>Assets</u>			
Cash and pooled investments	\$ 254,449	\$ 58,527	\$ 312,976
Undistributed cash in agency funds	16,930	959	17,889
Taxes receivable delinquent	728	-	728
Special assessments receivable			
Delinquent	360	1,401	1,761
Deferred	45,092	83,490	128,582
Accounts receivable	41,025	-	41,025
Advance to watershed	-	109,400	109,400
	\$ 358,584	\$ 253,777	\$ 612,361
Total Assets	\$ 358,584	\$ 253,777	\$ 612,361
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 11,969	\$ -	\$ 11,969
Due to other funds	55	-	55
Due to other governments	18,224	-	18,224
Customer deposits	3,427	-	3,427
Deferred revenue - unavailable	80,460	84,579	165,039
	\$ 114,135	\$ 84,579	\$ 198,714
Total Liabilities	\$ 114,135	\$ 84,579	\$ 198,714
 Fund Balances			
Nonspendable			
Advance to watershed	\$ -	\$ 109,400	\$ 109,400
Restricted for			
Debt service	-	59,798	59,798
Gravel pit postclosure	78,595	-	78,595
Ditch maintenance and construction	166,830	-	166,830
Assigned to			
County homes	51,970	-	51,970
Unassigned	(52,946)	-	(52,946)
	\$ 244,449	\$ 169,198	\$ 413,647
Total Fund Balances	\$ 244,449	\$ 169,198	\$ 413,647
Total Liabilities and Fund Balances	\$ 358,584	\$ 253,777	\$ 612,361

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT B-2

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

	<u>Special Revenue (Exhibit C-2)</u>	<u>Ditch Debt Service</u>	<u>Total (Exhibit 5)</u>
Revenues			
Taxes	\$ 49,537	\$ -	\$ 49,537
Special assessments	63,252	111,760	175,012
Licenses and permits	400	-	400
Intergovernmental	60,778	-	60,778
Charges for services	256,689	-	256,689
Miscellaneous	26,647	-	26,647
	<u> </u>	<u> </u>	<u> </u>
Total Revenues	<u>\$ 457,303</u>	<u>\$ 111,760</u>	<u>\$ 569,063</u>
Expenditures			
Current			
General government	\$ 1,620	\$ -	\$ 1,620
Sanitation	361,487	-	361,487
Human services	9,837	-	9,837
Conservation of natural resources	87,381	-	87,381
Debt service			
Principal	-	6,000	6,000
Interest	-	9,333	9,333
	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	<u>\$ 460,325</u>	<u>\$ 15,333</u>	<u>\$ 475,658</u>
Excess of Revenues Over (Under)			
Expenditures	\$ (3,022)	\$ 96,427	\$ 93,405
Fund Balance - January 1	<u>247,471</u>	<u>72,771</u>	<u>320,242</u>
Fund Balance - December 31	<u>\$ 244,449</u>	<u>\$ 169,198</u>	<u>\$ 413,647</u>

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT C-1

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2012**

	<u>County Homes</u>	<u>Ditch</u>	<u>Gravel Reserve Tax</u>	<u>Solid Waste</u>	<u>Total (Exhibit B-1)</u>
<u>Assets</u>					
Cash and pooled investments	\$ 55,624	\$ 113,452	\$ 77,942	\$ 7,431	\$ 254,449
Undistributed cash in agency funds	-	1,353	-	15,577	16,930
Taxes receivable delinquent	-	-	-	728	728
Special assessments receivable					
Prior	-	360	-	-	360
Deferred	-	45,092	-	-	45,092
Accounts receivable	-	-	653	40,372	41,025
Total Assets	<u>\$ 55,624</u>	<u>\$ 160,257</u>	<u>\$ 78,595</u>	<u>\$ 64,108</u>	<u>\$ 358,584</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 227	\$ -	\$ -	\$ 11,742	\$ 11,969
Due to other funds	-	55	-	-	55
Due to other governments	-	-	-	18,224	18,224
Customer deposits	3,427	-	-	-	3,427
Deferred revenue - unavailable	-	45,430	-	35,030	80,460
Total Liabilities	<u>\$ 3,654</u>	<u>\$ 45,485</u>	<u>\$ -</u>	<u>\$ 64,996</u>	<u>\$ 114,135</u>
Fund Balances					
Restricted for					
Gravel pit postclosure	\$ -	\$ -	\$ 78,595	\$ -	\$ 78,595
Ditch maintenance and construction	-	166,830	-	-	166,830
Assigned to					
County homes	51,970	-	-	-	51,970
Unassigned	-	(52,058)	-	(888)	(52,946)
Total Fund Balances	<u>\$ 51,970</u>	<u>\$ 114,772</u>	<u>\$ 78,595</u>	<u>\$ (888)</u>	<u>\$ 244,449</u>
Total Liabilities and Fund Balances	<u>\$ 55,624</u>	<u>\$ 160,257</u>	<u>\$ 78,595</u>	<u>\$ 64,108</u>	<u>\$ 358,584</u>

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT C-2

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

	<u>County Homes</u>	<u>Ditch</u>	<u>Gravel Reserve Tax</u>	<u>Solid Waste</u>	<u>Total (Exhibit B-2)</u>
Revenues					
Taxes	\$ -	\$ -	\$ 4,568	\$ 44,969	\$ 49,537
Special assessments	-	63,252	-	-	63,252
Licenses and permits	-	-	-	400	400
Intergovernmental	-	-	-	60,778	60,778
Charges for services	-	17	-	256,672	256,689
Miscellaneous	26,647	-	-	-	26,647
Total Revenues	\$ 26,647	\$ 63,269	\$ 4,568	\$ 362,819	\$ 457,303
Expenditures					
Current					
General government	\$ -	\$ 1,620	\$ -	\$ -	\$ 1,620
Sanitation	-	-	-	361,487	361,487
Human services	9,837	-	-	-	9,837
Conservation of natural resources	-	87,381	-	-	87,381
Total Expenditures	\$ 9,837	\$ 89,001	\$ -	\$ 361,487	\$ 460,325
Excess of Revenues Over (Under) Expenditures	\$ 16,810	\$ (25,732)	\$ 4,568	\$ 1,332	\$ (3,022)
Fund Balance - January 1	35,160	140,504	74,027	(2,220)	247,471
Fund Balance - December 31	\$ 51,970	\$ 114,772	\$ 78,595	\$ (888)	\$ 244,449

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT C-3

**BUDGETARY COMPARISON SCHEDULE
COUNTY HOMES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ 30,240	\$ 30,240	\$ 26,647	\$ (3,593)
Expenditures				
Current				
Human services				
Low-income housing	17,450	17,450	9,837	7,613
Excess of Revenues Over (Under)				
Expenditures	\$ 12,790	\$ 12,790	\$ 16,810	\$ 4,020
Fund Balance - January 1	<u>35,160</u>	<u>35,160</u>	<u>35,160</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 47,950</u>	<u>\$ 47,950</u>	<u>\$ 51,970</u>	<u>\$ 4,020</u>

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT C-4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 46,300	\$ 46,300	\$ 44,969	\$ (1,331)
Licenses and permits	400	400	400	-
Intergovernmental	58,890	58,890	60,778	1,888
Charges for services	259,031	259,031	256,672	(2,359)
Total Revenues	\$ 364,621	\$ 364,621	\$ 362,819	\$ (1,802)
Expenditures				
Current				
Sanitation				
Recycling	\$ 80,795	\$ 80,795	\$ 81,741	\$ (946)
Landfill	25,000	25,000	22,000	3,000
Fosston incinerator	238,783	238,783	229,694	9,089
Household hazardous waste	20,043	20,043	28,052	(8,009)
Total Expenditures	\$ 364,621	\$ 364,621	\$ 361,487	\$ 3,134
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ 1,332	\$ 1,332
Fund Balance - January 1	(2,220)	(2,220)	(2,220)	-
Fund Balance - December 31	\$ (2,220)	\$ (2,220)	\$ (888)	\$ 1,332

**NORMAN COUNTY
ADA, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

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.

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**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT D-1

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 8,660	\$ 406,580	\$ 390,630	\$ 24,610
<u>Liabilities</u>				
Accounts payable	\$ 780	\$ -	\$ 780	\$ -
Due to other funds	-	856	-	856
Due to other governments	7,880	405,724	389,850	23,754
Total Liabilities	\$ 8,660	\$ 406,580	\$ 390,630	\$ 24,610
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 154,816	\$ 4,329,191	\$ 4,313,868	\$ 170,139
<u>Liabilities</u>				
Due to other governments	\$ 134,945	\$ 4,314,318	\$ 4,284,838	\$ 164,425
Funds held in trust	19,871	14,873	29,030	5,714
Total Liabilities	\$ 154,816	\$ 4,329,191	\$ 4,313,868	\$ 170,139
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 163,476	\$ 4,735,771	\$ 4,704,498	\$ 194,749
<u>Liabilities</u>				
Accounts payable	\$ 780	\$ -	\$ 780	\$ -
Due to other funds	-	856	-	856
Due to other governments	142,825	4,720,042	4,674,688	188,179
Funds held in trust	19,871	14,873	29,030	5,714
Total Liabilities	\$ 163,476	\$ 4,735,771	\$ 4,704,498	\$ 194,749

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SCHEDULES

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**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT E-1

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2012**

	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Fair Value</u>
Deposits and Investments			
Undesignated			
Cash on hand	N/A	N/A	\$ 4,800
Noninterest-bearing checking (1)	N/A	Continuous	2,946
Interest-bearing checking (3)	0.01% to 0.45%	Continuous	1,997,741
Money market checking (1)	0.30%	Continuous	2,000,000
Certificates of deposit (2)	0.13% to 0.25%	May 23, 2013 to June 30, 2013	<u>1,000,000</u>
Total undesignated			\$ 5,005,487
Designated for real estate tax shortfall			
Certificates of deposit (2)	0.22%	December 22, 2013	<u>21,160</u>
Total Deposits and Investments			<u><u>\$ 5,026,647</u></u>

**NORMAN COUNTY
ADA, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE AND DITCH DEBT SERVICE FUNDS
DECEMBER 31, 2012**

	Assets					
	Cash	Undistributed Cash	Special Assessments Receivable		Advance to Watershed	Total
	and Pooled Investments		Delinquent	Deferred		
County Ditches						
5	\$ 576	\$ 105	\$ -	\$ 845	\$ -	\$ 1,526
6	(165)	-	-	602	-	437
7	13,484	9	47	-	-	13,540
8	2,085	-	-	-	-	2,085
9	7,330	-	-	-	-	7,330
14	1,594	3	-	302	-	1,899
17	2,029	35	3	320	-	2,387
22	6,031	51	-	2,116	-	8,198
23	2,791	2	-	-	-	2,793
24	2,274	59	-	326	-	2,659
25	(41,009)	-	116	21,823	-	(19,070)
26	86	-	-	-	-	86
28 & 3	398	-	-	-	-	398
29	(3,385)	63	-	2,990	-	(332)
29 Lat. 1	2,180	64	-	-	-	2,244
31	4,085	-	-	149	-	4,234
33	23,885	-	44	-	-	23,929
34	18,387	-	-	505	-	18,892
36	2,597	47	-	332	-	2,976
39	524	-	-	154	-	678
40	2,013	22	-	559	-	2,594
41	1,021	-	-	575	-	1,596
42	17,644	291	-	-	-	17,935
46	883	-	-	303	-	1,186
47	4,840	252	64	2,403	-	7,559
49	2,813	10	48	511	-	3,382
62	2,286	12	29	282	-	2,609
65	2,764	11	-	1,021	-	3,796
69	4,569	56	-	1,542	-	6,167
73	10,906	52	-	1,963	-	12,921
75	2,131	98	-	369	-	2,598
Borup State Ditch	61	-	-	-	-	61
Judicial Ditches						
54 South	23,253	111	9	-	-	23,373
55	(7,509)	-	-	5,100	-	(2,409)
Watershed Ditches						
Project 43 - Perley	16,182	423	502	16,949	2,669	36,725
Project 44 - Hendrum	42,345	536	899	66,541	106,731	217,052
Total	\$ 171,979	\$ 2,312	\$ 1,761	\$ 128,582	\$ 109,400	\$ 414,034
Presented as						
Ditch Special Revenue Fund	\$ 113,452	\$ 1,353	\$ 360	\$ 45,092	\$ -	\$ 160,257
Ditch Debt Service Fund	58,527	959	1,401	83,490	109,400	253,777
Total	\$ 171,979	\$ 2,312	\$ 1,761	\$ 128,582	\$ 109,400	\$ 414,034

EXHIBIT E-2

Liabilities			Fund Balances						Total
Due to Other Funds	Deferred Revenue	Total	Nonspendable Advance to Watershed	Restricted for Debt Service	Restricted for Ditch Maintenance and Construction	Unassigned	Total	Liabilities and Fund Balances	
\$ -	\$ 845	\$ 845	\$ -	\$ -	\$ 681	\$ -	\$ 681	\$ 1,526	
-	602	602	-	-	-	(165)	(165)	437	
-	30	30	-	-	13,510	-	13,510	13,540	
-	-	-	-	-	2,085	-	2,085	2,085	
-	-	-	-	-	7,330	-	7,330	7,330	
-	302	302	-	-	1,597	-	1,597	1,899	
-	323	323	-	-	2,064	-	2,064	2,387	
-	2,116	2,116	-	-	6,082	-	6,082	8,198	
-	-	-	-	-	2,793	-	2,793	2,793	
-	326	326	-	-	2,333	-	2,333	2,659	
55	21,937	21,992	-	-	-	(41,062)	(41,062)	(19,070)	
-	-	-	-	-	86	-	86	86	
-	-	-	-	-	398	-	398	398	
-	2,990	2,990	-	-	-	(3,322)	(3,322)	(332)	
-	-	-	-	-	2,244	-	2,244	2,244	
-	149	149	-	-	4,085	-	4,085	4,234	
-	44	44	-	-	23,885	-	23,885	23,929	
-	505	505	-	-	18,387	-	18,387	18,892	
-	332	332	-	-	2,644	-	2,644	2,976	
-	154	154	-	-	524	-	524	678	
-	559	559	-	-	2,035	-	2,035	2,594	
-	575	575	-	-	1,021	-	1,021	1,596	
-	1	1	-	-	17,934	-	17,934	17,935	
-	303	303	-	-	883	-	883	1,186	
-	2,467	2,467	-	-	5,092	-	5,092	7,559	
-	557	557	-	-	2,825	-	2,825	3,382	
-	309	309	-	-	2,300	-	2,300	2,609	
-	1,021	1,021	-	-	2,775	-	2,775	3,796	
-	1,542	1,542	-	-	4,625	-	4,625	6,167	
-	1,963	1,963	-	-	10,958	-	10,958	12,921	
-	369	369	-	-	2,229	-	2,229	2,598	
-	-	-	-	-	61	-	61	61	
-	9	9	-	-	23,364	-	23,364	23,373	
-	5,100	5,100	-	-	-	(7,509)	(7,509)	(2,409)	
-	17,390	17,390	2,669	16,666	-	-	19,335	36,725	
-	67,189	67,189	106,731	43,132	-	-	149,863	217,052	
\$ 55	\$ 130,009	\$ 130,064	\$ 109,400	\$ 59,798	\$ 166,830	\$ (52,058)	\$ 283,970	\$ 414,034	
\$ 55	\$ 45,430	\$ 45,485	\$ -	\$ -	\$ 166,830	\$ (52,058)	\$ 114,772	\$ 160,257	
-	84,579	84,579	109,400	59,798	-	-	169,198	253,777	
\$ 55	\$ 130,009	\$ 130,064	\$ 109,400	\$ 59,798	\$ 166,830	\$ (52,058)	\$ 283,970	\$ 414,034	

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT E-3

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

Shared Revenue

State

Highway users tax	\$	4,445,028
County program aid		263,924
PERA rate reimbursement		13,183
Disparity reduction aid		15,683
Police aid		31,284
Market value credit		97,274
		97,274

Total shared revenue **\$ 4,866,376**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	156,252
		156,252

Payments

Local

Payments in lieu of taxes	\$	28,855
		28,855

Grants

State

Minnesota Department/Board of		
Corrections	\$	1,304
Public Safety		442,992
Transportation		6,538
Natural Resources		54,356
Human Services		388,014
Veterans Affairs		2,298
Water and Soil Resources		136,864
Office of Environmental Assistance		55,950
Peace Officer Standards and Training Board		1,660
		1,660

Total state **\$ 1,089,976**

Federal

Department of		
Agriculture	\$	45,508
Commerce		14,498
Transportation		2,228,001
Health and Human Services		512,286
Homeland Security		1,227,703
		1,227,703

Total federal **\$ 4,027,996**

Total state and federal grants **\$ 5,117,972**

Total Intergovernmental Revenue **\$ 10,169,455**

**NORMAN COUNTY
ADA, MINNESOTA**

EXHIBIT E-4

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ <u>45,508</u>
U.S. Department of Commerce		
Passed Through Minnesota Department of Public Safety and Headwaters Regional Development Commission Public Safety Interoperable Communications Grant Program	11.555	\$ <u>14,498</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 2,215,886
Passed Through Minnesota Department of Public Safety Highway Safety Cluster		
State and Community Highway Safety	20.600	3,510
Occupant Protection Incentive Grants	20.602	7,038
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>1,567</u>
Total U.S. Department of Transportation		\$ <u>2,228,001</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 3,542
Temporary Assistance for Needy Families Cluster		
Temporary Assistance for Needy Families	93.558	79,117
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714	8,573
Child Support Enforcement	93.563	85,341
Refugee and Entrant Assistance - State-Administered Programs	93.566	112
Child Care and Development Block Grant	93.575	3,096
Community-Based Child Abuse Prevention Grants	93.590	6,381
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1,907
Foster Care Title IV-E	93.658	22,715
Social Services Block Grant	93.667	85,266
Chafee Foster Care Independence Program	93.674	3,670
Children's Health Insurance Program	93.767	16
Medical Assistance Program	93.778	206,698
Passed Through Minnesota Department of Human Services and Polk County Block Grants for Community Mental Health Services	93.958	<u>5,852</u>
Total U.S. Department of Health and Human Services		\$ <u>512,286</u>

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

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**NORMAN COUNTY
ADA, MINNESOTA**

**EXHIBIT E-4
(Continued)**

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 536,525
Emergency Management Performance Grants	97.042	14,296
Pre-Disaster Mitigation	97.047	22,158
Passed Through Minnesota Department of Natural Resources		
Cooperating Technical Partners	97.045	85,317
Passed Through Minnesota Department of Public Safety and Northwest Regional Development Commission		
Homeland Security Grant Program	97.067	<u>156,368</u>
Total U.S. Department of Homeland Security		\$ <u>814,664</u>
Total Federal Awards		\$ <u><u>3,614,957</u></u>

**NORMAN COUNTY
ADA, MINNESOTA**

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

1. Reporting Entity

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

2. Basis of Presentation

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

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 4,027,996
Grants received more than 60 days after year-end, deferred in 2012	
Highway Planning and Construction	9,373
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	152,783
Grants deferred in 2011, recognized as revenue in 2012	
Highway Planning and Construction	(9,373)
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	(550,449)
Cooperating Technical Partners	(15,373)
	<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 3,614,957</u>

**NORMAN COUNTY
ADA, MINNESOTA**

5. Clusters

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

Highway Safety Cluster	\$	10,548
Temporary Assistance for Needy Families Cluster		87,690

6. Subrecipients

Of the expenditures presented in the schedule, Norman County provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
97.045	Cooperating Technical Partners	<u>\$ 85,317</u>

7. American Recovery and Reinvestment Act

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

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**NORMAN COUNTY
ADA, MINNESOTA**

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

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major programs are:

Highway Planning and Construction	CFDA #20.205
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	CFDA #97.036

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-6 Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect County assets, proper segregation of the record-keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place.

Condition: 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. The Auditor-Treasurer's Office generally tries to segregate the record-keeping function from the custody function. However, due to breaks, vacations, and illness, staff assigned record-keeping responsibilities may be required to assist in receipting collections, and staff assigned the custody functions may be required to assist in posting. The smaller fee offices generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Context: 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.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County informed us that it believes it is more efficient to have fees specific to the services provided by a department collected within that department and periodically remit those fees to the Treasurer's Office. The County combined the Auditor-Treasurer position several years ago to reduce costs by limiting staff.

Recommendation: We recommend Norman County's elected officials and management be mindful that limited staffing increases the risks in safeguarding the County's assets and the proper recording of its financial activity and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

06-2 Audit Adjustments

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

Condition: During our audit, we identified material adjustments that resulted in significant changes to the County's financial statements. The County provides a general ledger which includes certain accruals, a GASB34 Audit List, and other supporting schedules necessary for preparing fund level and government-wide financial statements.

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

Effect: Audit adjustments were necessary in the General Fund to reclassify \$183,207 in grant revenues posted to Sheriff expenditures and to record a receivable in the amount of \$647,796 to cover a cash deficit in the Road and Bridge Special Revenue Fund. An audit adjustment was necessary in the Road and Bridge Special Revenue Fund to adjust liabilities to reflect a payable to the General Fund of \$647,796 to cover the cash deficit.

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

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

11-1 Network/Application Password Controls

Criteria: County management is responsible for the County's internal controls over its information systems. This requires establishing security policies and performing assessments of existing controls to determine if the internal controls established are still effective or if changes are needed to ensure County data is protected as prescribed by management.

Condition: Norman County updated to a new version of the Integrated Financial System (IFS) application software. This application was written as a web-based application and may be run on a server or a mainframe system. Norman County contracts with a vendor for use of space on a mainframe IBM I Series system. For an employee of Norman County to access the new IFS application, the user must be signed on to the County network and have a current sign-on for the IFS application. The sign-on differs from the sign-on for the IBM I Series system, so the mainframe security settings do not apply to the application. Norman County has not reviewed the network controls or assessed risks from the change to a web-based application to ensure password controls are working as intended.

Context: The IFS application is the general ledger for Norman County. Detailed receipt and disbursement transactions as well as budget information are maintained on the IFS application throughout the year. This information is used by management to monitor the resources available and make decisions based on the available resources. At or near year-end, certain accrual information is also recorded in the application. The information maintained within the IFS application is the key source of information used for the preparation of the County's annual financial statements.

Effect: Normal password controls in place in the IBM I Series system are not effective for the IFS application, so a review of the IFS application controls and County network controls is imperative to ensure passwords are working as intended.

Cause: Norman County updated to a new web-based version of the IFS application software. Although County management was made aware of some of the password implications of this change during the previous audit, the County could not provide assurance that network controls were reviewed.

Recommendation: We recommend Norman County management review password controls in place that limit access to the IFS application to ensure they are appropriate to protect the County data as prescribed by management.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 Ditch Fund Cash Deficits

Criteria: As stated in Minn. Stat. § 385.04, in part, “. . . every warrant shall be paid only from the cash on hand in the fund from which it may be properly payable.” As allowed by Minn. Stat. § 103E.655, subd. 2, loans may be made from ditch systems with surplus funds or from the General Fund to a ditch with insufficient cash to pay expenditures.

Condition: Four of the 36 individual ditch systems had deficit cash balances totaling \$52,068 at December 31, 2012. This amount increased from the prior year when we reported that 4 of the 37 individual ditch systems had deficit cash balances totaling \$4,523.

Context: If the County Board transfers money from another account or fund to a drainage system account, the money plus interest must be reimbursed from the proceeds of the drainage system that received the transfer, under Minn. Stat. § 103E.655, subd. 2. A fund balance to be used for repairs may be established under Minn. Stat. § 103E.735, subd. 1, for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is larger.

Effect: Allowing a ditch system to maintain a deficit cash balance, in effect, constitutes an interest-free loan from other County funds and, as such, is in noncompliance with Minnesota law.

Cause: Ditch expenditures were necessary; the ditch levies were not sufficient, and no loans were formally made between ditches.

Recommendation: We recommend that the County eliminate the ditch system cash deficits by borrowing from an eligible fund with a surplus cash balance and by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus balance to provide for the repair and maintenance costs of a ditch system.

Road and Bridge Special Revenue Fund Cash Balance Deficit

Criteria: As stated in Minn. Stat. § 385.04, payment of expenditures may be made only if money is available in the fund for that purpose. As provided by Minn. Stat. § 385.32, temporary fund transfers may be made with the approval of the County Board and County Auditor-Treasurer. The County Board has oversight responsibilities for the property, funds, and business of the County. The Board should be notified if a fund does not have sufficient money available to cover expenditures and provide temporary or permanent resources as needed for the fund.

Condition: At December 31, 2012, the Road and Bridge Special Revenue Fund had a deficit cash balance of \$647,796.

Context: The cash deficit condition has improved from the \$756,497 cash deficit previously reported; however, in the previous year, the County was anticipating federal and state receivables in the amount of \$778,354 to cover expenditures relating to damage to its highway infrastructure during the 2010 and 2011 floods. At December 31, 2012, the anticipated federal and state receivables for these expenditures were \$224,000 which, if collected, would not cover the \$647,796 cash deficit.

Effect: Allowing the payment of expenditures from the Road and Bridge Special Revenue Fund when there was no money available in the fund resulted in a deficit cash balance and a violation of Minn. Stat. § 385.04.

Cause: Expenditures for projects are paid for in advance of the anticipated federal and state reimbursements. The Road and Bridge Special Revenue Fund did not have sufficient resources to cover these expenditures, and a temporary transfer as allowed by Minn. Stat. § 385.32 was not approved by the Board and the County Auditor-Treasurer.

Recommendation: We recommend that the County borrow from another fund when the cash balances are so low as to cause the fund to have a cash deficit when a payment is made from that fund.

ITEM ARISING THIS YEAR

12-1

Traffic Safety Course

Criteria: As stated in Minn. Stat. § 169.022, in part, “. . . Local authorities may adopt traffic regulations which are not in conflict with the provisions of this chapter; provided, that when any local ordinance regulating traffic covers the same subject for which a penalty is provided for in this chapter, then the penalty provided for violation of said local ordinance shall be identical with the penalties provided for in this chapter for the same offense.”

In 2009, the Minnesota Legislature enacted a new statute, Minn. Stat. § 169.999, to authorize the issuance of administrative citations and prescribe criteria for them. *See* 2009 Minn. Laws, ch. 158. Among other provisions, the statute states that a governing body resolution must be passed to authorize issuance of administrative citations. The resolution must bar peace officers from issuing administrative citations in violation of Minn. Stat. § 169.999 and specifies the offenses for which an administrative citation may be used. The authority requires the use of a uniform administrative citation prescribed by the Commissioner of Public Safety and specifies that the fine for an administrative violation must be \$60, two-thirds of which must be credited to the general revenue fund of the local unit of government, and one-third of which must be transferred to the Commissioner of Minnesota Management & Budget for deposit in the state’s General Fund. A local unit of government receiving administrative fine proceeds must use one-half of the funds for law enforcement purposes. Each local unit of government must follow these and other criteria specified in the statute.

Condition: Norman County has established a Traffic Safety Course option in lieu of issuance or court filing of a state uniform traffic ticket. Sheriff’s Deputies have the discretion to offer traffic violators the option of attending the Traffic Safety Course in lieu of a citation. The County is charging a \$50 fee for the course, which is payable to the Norman County Sheriff. In 2012, the County Sheriff’s Department received \$5,950 in fees related to violators attending the traffic safety course in lieu of a citation.

Context: In a letter to State Representative Steve Smith on December 1, 2003, the Minnesota Attorney General specifically addressed the issue of a driver improvement course or clinic in lieu of a ticket or other penalty. After reviewing the state law, the Attorney General concluded: “All such programs, however, require that a *trial court* make the determination as to whether attendance at such a [driver’s] clinic is appropriate. We are aware of no express authority for local officials to create a *pretrial* diversion program.” (Emphasis is that of the Attorney General.)

The Minnesota Supreme Court has stated, “[a]s a creature of the state deriving its sovereignty from the state, the county should play a leadership role in carrying out legislative policy.” *Kasch v. Clearwater County*, 289 N.W. 2d 148, 152 (Minn. 1980), quoting *County of Freeborn v. Bryson*, 243 N.W. 2d 316, 321 (Minn. 1976).

Effect: The County’s Traffic Safety Course is unauthorized and in violation of Minn. Stat. § 169.022.

Cause: The County asserts that the County can offer the Safe Driving Class option in lieu of issuance or court filing of a state uniform traffic ticket as a safe driving diversionary program.

Recommendation: We recommend the County comply with Minn. Stat. ch. 169, including Minn. Stat. § 169.999 (2009) or any subsequent legislation, by not offering a Traffic Safety Course in lieu of issuance or court filing of a state uniform traffic ticket.

B. MANAGEMENT PRACTICES

ITEMS ARISING THIS YEAR

12-2 County Ditch Fund Deficits

Criteria: Assets should exceed liabilities in order for the County to meet its obligations and maintain a positive fund balance. Through the levying of assessments, Minn. Stat. § 103E.735, subd. 1, permits the accumulation of a surplus balance for the repair costs of a ditch system not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is greater.

Condition: As of December 31, 2012, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balance amounts.

Context: Four of the 36 individual ditch systems had deficit fund balances as of December 31, 2012, totaling \$52,058, the largest being \$41,062. One of the ditch systems has sufficient current levies to cover the deficit; however, the other three ditch systems do not.

Effect: Allowing a ditch system to maintain a deficit fund balance, in effect, constitutes an interest-free loan from other individual ditch systems.

Cause: Ditch expenditures were necessary, and the ditch levies were not sufficient to cover all costs.

Recommendation: We recommend the County eliminate the ditch fund balance deficits by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus balance to provide for the repair costs of a ditch system.

12-3

Road and Bridge Deficit Fund Balance

Criteria: Assets should exceed liabilities in order for the County to meet its obligations and maintain a positive fund balance.

Condition: As of December 31, 2012, the assets in the County's Road and Bridge Fund did not exceed liabilities, resulting in a deficit fund balance amount.

Context: As of December 31, 2012, the Road and Bridge Special Revenue Fund had a deficit fund balance of \$414,049. At December 31, 2011, the Road and Bridge Special Revenue Fund had a deficit fund balance of \$365,965; however, the County was anticipating reimbursements of \$778,354 for expenditures relating to damage from the 2010 and 2011 floods which, if collected timely, would have resulted in a positive fund balance. At December 31, 2012, the receivable and deferred revenue related to those flood projects was \$224,000.

Effect: A fund with a deficit fund balance is, in effect, borrowing from County funds with positive fund balances.

Cause: The Road and Bridge Special Revenue Fund has had excess expenditures over revenues over the past three years. The County did not levy sufficient taxes nor transfer sufficient funds to cover the expenditures in the Road and Bridge Special Revenue Fund.

Recommendation: We recommend that the County monitor the fund balance and eliminate the deficit fund balance by increasing revenues or appropriating sufficient funds to cover expenditures.

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

Independent Auditor's Report

Board of County Commissioners
Norman County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Norman County as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 7, 2013.

Internal Control Over Financial Reporting

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

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

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

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-6 and 11-1 to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Norman County had no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Norman County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as items 96-1, 11-2, and 12-1. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 7, 2013

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

Independent Auditor's Report

Board of County Commissioners
Norman County

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Norman County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Norman County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Norman County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

June 7, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR