

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MORRISON COUNTY
LITTLE FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2007

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.

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

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Year Ended December 31, 2007



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

This page was left blank intentionally.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Introductory Section		
Organization Schedule		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	15
Statement of Activities	Exhibit 2	16
Fund Financial Statements		
Balance Sheet - Governmental Funds	Exhibit 3	18
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	Exhibit 4	20
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	Exhibit 5	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	Exhibit 6	23
Statement of Fiduciary Net Assets - Fiduciary Funds	Exhibit 7	24
Notes to the Financial Statements		25
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	53
Road and Bridge Special Revenue Fund	Schedule 2	55
Social Services Special Revenue Fund	Schedule 3	56
Solid Waste Special Revenue Fund	Schedule 4	57
Notes to the Required Supplementary Information		58

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Financial Section (Continued)		
Supplementary Information		
Combining and Individual Fund Financial Statements		
Nonmajor Funds		60
Nonmajor Governmental Funds		
Combining Balance Sheet	Statement 1	62
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement 2	63
Budgetary Comparison Schedules		
County Building Special Revenue Fund	Schedule 5	64
County Parks Special Revenue Fund	Schedule 6	65
Fiduciary Funds		
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	Statement 3	66
Other Schedule		
Schedule of Intergovernmental Revenue	Schedule 7	69
Management and Compliance Section		
Schedule of Findings and Questioned Costs	Schedule 8	70
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		80
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		83
Schedule of Expenditures of Federal Awards	Schedule 9	86

This page was left blank intentionally.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

**ORGANIZATION SCHEDULE
2007**

Office	Name	Term of Office	
		From	To
Commissioners			
1st District	Thomas R. Wenzel	January 2005	January 2009
2nd District	Jeff Schilling	January 2005	January 2009
3rd District	Gene Young	January 2005	January 2009
4th District	Donald Meyer*	January 2007	January 2011
5th District	Duane Johnson	January 2007	January 2011
Officers			
Elected			
Attorney	Brian Middendorf	January 2007	January 2011
Auditor	Russ Nygren	January 2007	January 2011
Recorder	Elda Mae Johnston	January 2007	January 2011
Sheriff	Michel Wetzel	January 2007	January 2011
Treasurer	Deb Gruber	January 2007	January 2011
Appointed			
Assessor	Glen Erickson	December 2005	December 2009
Corrections	Larry Falk		Indefinite
County Administrator	Timothy Houle		Indefinite
Court Administrator	Rhonda Dot		Indefinite
Extension	Jim Carlson		Indefinite
Information Systems	Mike Disher		Indefinite
Planning and Zoning Director	Jane Starz		Indefinite
Public Health Director	Bonnie Paulsen		Indefinite
Public Works Director	Steven Backowski	May 2005	May 2009
Social Services Director	Melanie Erickson		Indefinite
Veterans Service Officer	Paul Froncak	July 2005	July 2009

*Chair

This page was left blank intentionally.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Morrison County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrison County, Minnesota, as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Morrison County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrison County as of December 31, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the other required supplementary information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We

have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2008, on our consideration of Morrison County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

November 26, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2007
(Unaudited)

This section of Morrison County's annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on December 31, 2007. The Management's Discussion and Analysis (MD&A) is required supplementary information specified in the Governmental Accounting Standard Board's Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, issued in June 1999. Certain comparative information between the current year, 2007, and the prior year, 2006, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2007 fiscal year include the following:

- County-wide net assets increased 1.6 percent over the prior year.
- Overall fund level revenues totaled \$36,800,477 and were \$1,329,222 more than expenditures.
- The General Fund's fund balance increased \$140,589 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts: Independent Auditors' Report; required supplementary information, which includes the MD&A (this section) and certain budgetary comparison schedules: the basic financial statements; and supplemental information. The basic financial statements include two kinds of statements that present different views of the County:

- The first two statements are county-wide financial statements which provide both short-term and long-term information about the County's overall financial status.
- The remaining statements are fund financial statements which focus on individual parts of the County, reporting the County's operations in more detail than the county-wide statements.

- The governmental funds statements tell how basic services such as general government, human services, and highways and streets were financed in the short term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

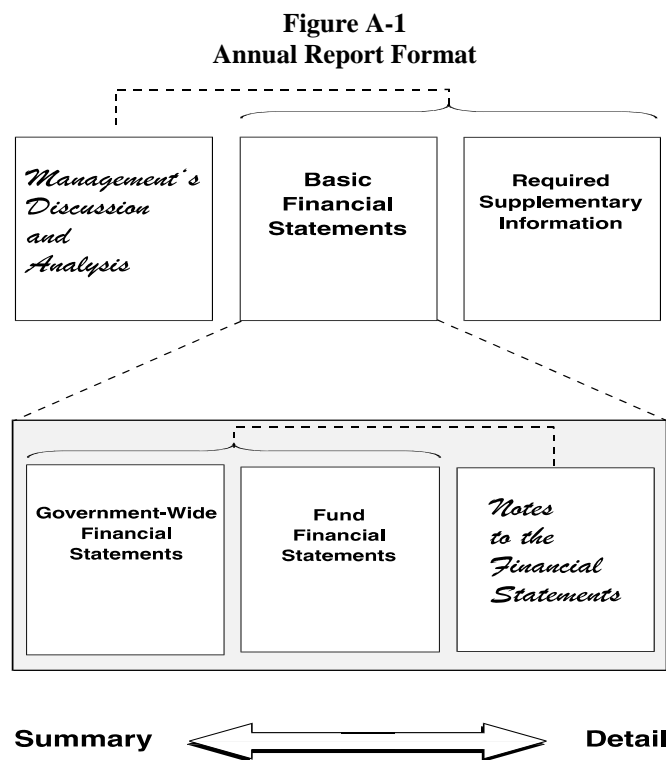


Figure A-2 summarizes the major features of the County’s financial statements, including the portion of the County’s activities they cover and the types of information they contain. The remainder of this overview section of the MD&A highlights the structure and contents of each of the statements.

Figure A-2. Major Features of the County’s Government-Wide and Fund Financial Statements			
Type of Statements	Government-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire County’s funds (except fiduciary funds) and the County’s component units	The activities of the County that are not proprietary or fiduciary	Instances in which the County is the trustee or agent for someone else’s resources
Required financial statements	Statement of net assets	Balance sheet	Statement of fiduciary net assets
	Statement of activities	Statement of revenues, expenditures and changes in fund balance	Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; agency funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

County-Wide Statements

The county-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the County’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two county-wide statements report the County's net assets and how they have changed. Net assets--the difference between the County's assets and liabilities--are one way to measure the County's financial health or position.

- Over time, increases or decreases in the County's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the County, you need to consider additional non-financial factors such as changes in the County's property tax base and the condition of County buildings and other facilities.

In the county-wide financial statements, the County's activities are shown in one category:

- Governmental activities - The County's basic services are included here. Property taxes and state aids finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the County's funds--focusing on its most significant or "major" funds--not the County as a whole. Funds are accounting devices the County uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The County establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The County has two kinds of funds:

- Governmental funds - The County's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the county-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.

- Fiduciary funds - The County is the fiscal agent, or fiduciary, for assets that belong to others. The County is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the County's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the county-wide financial statements because the County cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Assets

The County's net assets were \$95,321,035 on December 31, 2007. (See Table A-1.)

Table A-1
Net Assets

	Governmental Activities		Percent (%) Change
	2007	2006	
Current and other assets	\$ 27,736,253	\$ 28,352,669	(2.2)
Capital and noncurrent assets	<u>82,711,041</u>	<u>82,209,056</u>	0.6
Total Assets	<u>\$ 110,447,294</u>	<u>\$ 110,561,725</u>	(0.1)
Current liabilities	\$ 2,666,391	\$ 4,150,032	(35.8)
Long-term liabilities	<u>12,459,868</u>	<u>12,584,472</u>	(1.0)
Total Liabilities	<u>\$ 15,126,259</u>	<u>\$ 16,734,504</u>	(9.6)
Net Assets			
Invested in capital assets, net of related debt	\$ 73,831,162	\$ 71,720,433	2.9
Restricted	5,192,943	5,624,846	(7.7)
Unrestricted	<u>16,296,930</u>	<u>16,481,942</u>	(1.1)
Total Net assets	<u>\$ 95,321,035</u>	<u>\$ 93,827,221</u>	1.6

Changes in Net Assets

The total county-wide revenues on a full accrual basis were \$36,986,825 for the year ended December 31, 2007. Property taxes and intergovernmental revenues accounted for 75.2 percent of total revenue for the year. (See Table A-2.)

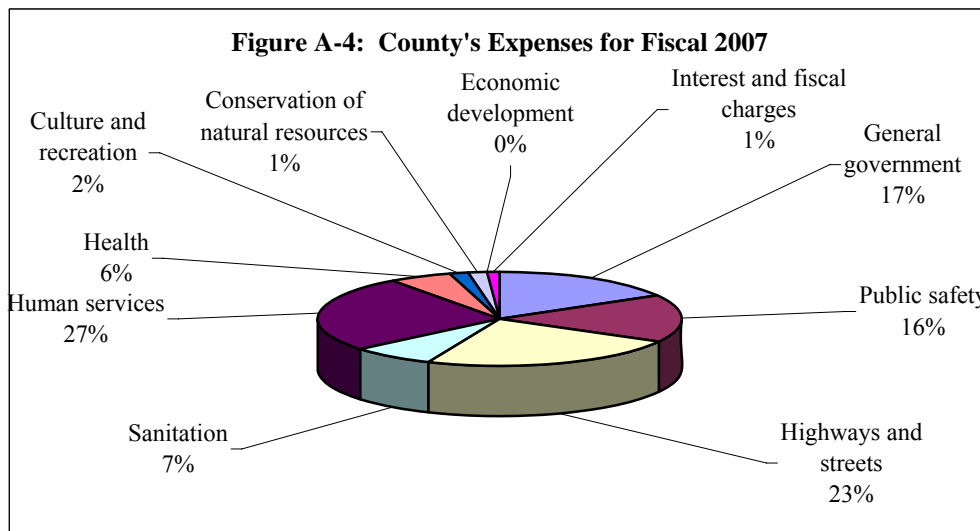
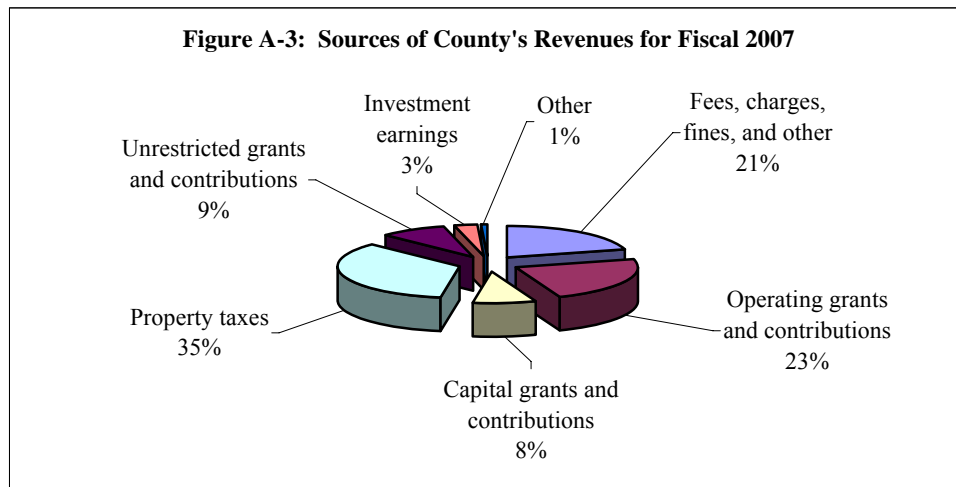
Table A-2
Changes in Net Assets

	Governmental Activities		Total (%) Change
	2007	2006	
Revenues			
Program revenues			
Fees, charges, fines, and other	\$ 7,705,019	\$ 8,042,976	(4.2)
Operating grants and contributions	8,668,026	10,015,686	(13.5)
Capital grants and contributions	3,087,939	2,872,818	7.5
General revenues			
Property taxes	12,750,743	11,602,683	9.9
Unrestricted grants and contributions	3,319,219	3,340,595	(0.6)
Investment earnings	1,114,844	1,014,969	9.8
Other	341,035	962,719	(64.6)
Total Revenues	<u>\$ 36,986,825</u>	<u>\$ 37,852,446</u>	(2.3)
Expenses			
General government	\$ 5,930,594	\$ 5,479,281	8.2
Public safety	5,823,148	4,510,550	29.1
Highways and streets	8,261,244	7,418,310	11.4
Sanitation	2,649,298	2,479,707	6.8
Human services	9,231,226	8,494,092	8.7
Health	2,064,837	1,775,844	16.3
Culture and recreation	569,582	74,641	663.1
Conservation of natural resources	526,925	572,329	(7.9)
Economic development	53,743	479,670	(88.8)
Interest and fiscal charges on long-term liabilities	382,414	381,400	0.3
Total Expenses	<u>\$ 35,493,011</u>	<u>\$ 31,665,824</u>	12.1
Increase in Net Assets	\$ 1,493,814	\$ 6,186,622	(75.9)
Beginning Net Assets	<u>93,827,221</u>	<u>87,640,599</u>	7.1
Ending Net Assets	<u>\$ 95,321,035</u>	<u>\$ 93,827,221</u>	1.6

Total revenues surpassed expenses, increasing net assets \$1,493,814 over last year.

The County-wide cost of all governmental activities this year was \$35,493,011.

- Some of the cost was paid by the users of the County’s programs (\$7,705,019).
- The federal and state governments subsidized certain programs with grants and contributions (\$11,755,965).
- The remaining County costs (\$16,032,027), however, were paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$12,750,743 in property taxes, \$3,319,219 of state aid, and \$1,455,879 with investment earnings and other general revenues.



**Table A-3
Cost of Services**

	Total Costs of Services		Percent (%) Change	Net Cost of (Revenue from) Services		Percent (%) Change
	2007	2006		2007	2006	
General government	\$ 5,930,594	\$ 5,479,281	8.2	\$ 4,272,689	\$ 3,587,164	19.1
Public safety	5,823,148	4,510,550	29.1	4,218,658	3,140,814	34.3
Highways and streets	8,261,244	7,418,310	11.4	1,478,500	(16,035)	9,320.5
Sanitation	2,649,298	2,479,707	6.8	863,755	(872,762)	199.0
Human services	9,231,226	8,494,092	8.7	3,846,562	3,198,502	20.3
Health	2,064,837	1,775,844	16.3	170,289	366,426	(53.5)
Culture and recreation	569,582	74,641	663.1	569,582	(39,935)	1,526.3
Conservation of natural resources	526,925	572,329	(7.9)	178,035	509,100	(65.0)
Economic development	53,743	479,670	(88.8)	51,543	479,670	(89.3)
Interest	382,414	381,400	0.3	382,414	381,400	0.3
Total	\$ 35,493,011	\$ 31,665,824	12.1	\$ 16,032,027	\$ 10,734,344	49.4

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL

The financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance of \$22,112,107.

Revenues for the County's governmental funds were \$36,800,477, while total expenditures were \$38,129,699. During 2007, the County issued no new debt.

GENERAL FUND

The General Fund includes the primary operations of the County in providing services to citizens and some capital outlay projects.

The following schedule presents a summary of General Fund revenues.

**Table A-4
General Fund Revenues**

	Year Ended December 31		Change	
	2007	2006	Increase (Decrease)	Percent (%)
Taxes	\$ 6,566,672	\$ 5,951,892	\$ 614,780	10.3
Intergovernmental	3,198,674	3,395,233	(196,559)	(5.8)
Charges for services	3,128,961	2,769,431	359,530	13.0
Investment income	936,219	739,856	196,363	26.5
Miscellaneous and other	1,082,252	905,891	176,361	19.5
Total General Fund Revenues	\$ 14,912,778	\$ 13,762,303	\$ 1,150,475	8.4

Total General Fund revenue increased by \$1,150,475, or 8.4 percent, from the previous year. The mix of property tax and state aid can change significantly from year to year without any net change in revenue. Charges for services increased due to the addition of 48 beds in the jail during the year. Interest earnings increased due to better than expected interest rates.

The following schedule presents a summary of General Fund expenditures.

**Table A-5
General Fund Expenditures**

	Year Ended December 31		Amount of Increase (Decrease)	Percent (%) Increase (Decrease)
	2007	2006		
General government	\$ 5,532,702	\$ 5,421,215	\$ 111,487	2.1
Public safety	6,122,741	4,580,444	1,542,297	33.7
Health	2,027,404	1,758,023	269,381	15.3
Culture and recreation	61,710	55,112	6,598	12.0
Conservation of natural resources	521,666	564,856	(43,190)	(7.6)
Economic development	53,743	53,743	-	-
Intergovernmental	452,223	425,927	26,296	6.2
Debt service	-	13,750	(13,750)	-
Total Expenditures	\$ 14,772,189	\$ 12,873,070	\$ 1,899,119	14.8

General Fund Budgetary Highlights

- Over the course of the year, the County did not revise the annual operating budget.
- Actual revenues were \$1,786,515 more than expected; this is primarily due to the jail remodel adding an additional 48 beds to the jail, interest earnings, and an increase in state grants.
- The actual expenditures were \$1,463,795 more than budget. This is due to 911 sign replacement and Dispatch Center renovation costs.

DEBT SERVICE

An annual levy is made to fund the bond payments for all previous bond issues.

CAPITAL ASSETS

By the end of 2007, the County had invested over \$128,000,000 in a broad range of capital assets, including buildings, computers, equipment, and infrastructure. (See Table A-7.) (More detailed information about capital assets can be found in Note 3.A.2. to the financial statements.) Total depreciation expense for the year was \$3,414,560.

Table A-6
Capital Assets

	2007	2006	Percent (%) Change
Land	\$ 3,672,859	\$ 3,415,224	7.5
Buildings	22,158,009	21,814,380	1.6
Machinery, furniture, and equipment	6,862,915	6,609,723	3.8
Infrastructure	95,525,355	92,624,783	3.1
Less: accumulated depreciation	<u>(45,572,976)</u>	<u>(42,328,677)</u>	7.7
Total	<u>\$ 82,646,162</u>	<u>\$ 82,135,433</u>	0.6

LONG-TERM LIABILITIES

At year-end, the County had \$13,590,533 in long-term liabilities outstanding. The County's total debt decreased \$1,008,479 due to scheduled debt payments for bonds and installment purchases.

Table A-7
Long-Term Liabilities

	2007	2006	Percent (%) Change
General obligation bonds	\$ 8,815,000	\$ 10,340,000	(14.7)
Installment purchase	-	75,000	(100.0)
Compensated absences	1,796,693	1,445,535	24.3
Estimated liability for landfill closure/postclosure	<u>2,978,840</u>	<u>2,738,477</u>	8.8
Total	<u>\$ 13,590,533</u>	<u>\$ 14,599,012</u>	(6.9)

FACTORS BEARING ON THE COUNTY'S FUTURE

The County is dependent on the State of Minnesota for a significant portion of its revenue. Recent experience demonstrates that the legislature may decrease revenues again.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Steve Messerschmidt, Finance Director, at (320) 632-0131, or Russ Nygren, County Auditor, at (320) 632-0130.

COMPONENT UNIT

The Morrison County Rural Development Finance Authority (RDFA) is a component unit of Morrison County and is reported in a separate column in the government-wide financial statements to emphasize that the RDFA is legally separate from Morrison County. Complete financial statements of the Morrison County Rural Development Finance Authority can be obtained at 213 First Avenue S.E., Little Falls, Minnesota 56345-3196.

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page was left blank intentionally.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

	Primary Government Governmental Activities	Component Unit Rural Development Finance Authority
<u>Assets</u>		
Cash and pooled investments	\$ 21,037,944	\$ 178,841
Petty cash and change funds	10,855	-
Departmental cash	17,860	-
Delinquent taxes receivable	467,592	-
Special assessments receivable		
Delinquent	479	-
Deferred	648	-
Accounts receivable	379,536	-
Accrued interest receivable	471,923	-
Loans receivable	25,000	-
Due from other governments	3,796,023	-
Inventories	697,771	-
Investment in joint venture	830,622	-
Deferred charges	64,879	-
Capital assets		
Non-depreciable	3,672,859	-
Depreciable - net of accumulated depreciation	78,973,303	-
Total Assets	\$ 110,447,294	\$ 178,841
<u>Liabilities</u>		
Accounts payable	\$ 608,103	\$ -
Salaries payable	388,764	-
Contracts payable	166,177	-
Due to other governments	164,237	-
Accrued interest payable	152,420	-
Unearned revenue	56,025	-
Long-term liabilities		
Due within one year	1,130,665	-
Due in more than one year	12,459,868	-
Total Liabilities	\$ 15,126,259	\$ -
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 73,831,162	\$ -
Restricted for		
General government	28,926	-
Sanitation	3,211,485	-
Debt service	1,952,532	-
Unrestricted	16,296,930	178,841
Total Net Assets	\$ 95,321,035	\$ 178,841

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Primary government		
Governmental activities		
General government	\$ 5,930,594	\$ 1,451,062
Public safety	5,823,148	1,188,691
Highways and streets	8,261,244	1,197,676
Sanitation	2,649,298	1,700,857
Human services	9,231,226	812,757
Health	2,064,837	1,315,820
Culture and recreation	569,582	-
Conservation of natural resources	526,925	35,956
Economic development	53,743	2,200
Interest	382,414	-
Total Primary Government	<u>\$ 35,493,011</u>	<u>\$ 7,705,019</u>
Component unit		
Rural Development Finance Authority	<u>\$ 34,924</u>	<u>\$ 75,654</u>
 General Revenues		
		Property taxes
		Payments in lieu of tax
		Grants and contributions not restricted to specific programs
		Unrestricted investment income
		Miscellaneous
		Total general revenues
		Change in net assets
		Net Assets - Beginning
		Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Component Unit Rural Development Finance Authority
\$ 206,843	\$ -	\$ (4,272,689)	
415,799	-	(4,218,658)	
2,497,129	3,087,939	(1,478,500)	
84,686	-	(863,755)	
4,571,907	-	(3,846,562)	
578,728	-	(170,289)	
-	-	(569,582)	
312,934	-	(178,035)	
-	-	(51,543)	
-	-	(382,414)	
\$ 8,668,026	\$ 3,087,939	\$ (16,032,027)	
\$ -	\$ -		\$ 40,730
		\$ 12,750,743	\$ 56,862
		198,353	-
		3,319,219	8,355
		1,114,844	891
		142,682	-
		\$ 17,525,841	\$ 66,108
		\$ 1,493,814	\$ 106,838
		93,827,221	72,003
		\$ 95,321,035	\$ 178,841

This page was left blank intentionally.

FUND FINANCIAL STATEMENTS

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 7,390,734	\$ 2,566,445
Petty cash and change funds	5,730	75
Departmental cash	15,867	-
Delinquent taxes receivable	232,620	92,607
Special assessments receivable		
Delinquent	-	-
Deferred	-	-
Accounts receivable	142,766	48,938
Accrued interest receivable	361,810	-
Loans receivable	-	-
Due from other funds	5,560	91,668
Due from other governments	233,245	3,016,173
Inventories	-	697,771
	\$ 8,388,332	\$ 6,513,677
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 138,933	\$ 35,441
Salaries payable	239,876	52,387
Contracts payable	-	166,177
Due to other funds	-	-
Due to other governments	73,743	1,743
Deferred revenue - unavailable	232,620	3,034,106
Deferred revenue - unearned	56,025	-
	\$ 741,197	\$ 3,289,854
Fund Balances		
Reserved for		
Encumbrances	\$ 167,489	\$ -
Inventories	-	697,771
Law library	28,926	-
Debt service	-	-
Loans receivable	-	-
Landfill closure	-	-
Election equipment	66,022	-
Unreserved		
Designated for future expenditures	2,108,353	-
Designated for contingencies	324,337	-
Undesignated	4,952,008	2,526,052
Unreserved, reported in special revenue funds	-	-
	\$ 7,647,135	\$ 3,223,823
	\$ 8,388,332	\$ 6,513,677

EXHIBIT 3

<u>Social Services</u>	<u>Solid Waste</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 2,496,365	\$ 6,175,536	\$ 1,917,654	\$ 491,210	\$ 21,037,944
5,050	-	-	-	10,855
-	1,215	778	-	17,860
97,487	2,209	40,066	2,603	467,592
-	414	-	65	479
-	-	-	648	648
67,771	120,061	-	-	379,536
-	76,013	34,100	-	471,923
-	-	-	25,000	25,000
-	-	-	-	97,228
545,001	1,604	-	-	3,796,023
-	-	-	-	697,771
<u>\$ 3,211,674</u>	<u>\$ 6,377,052</u>	<u>\$ 1,992,598</u>	<u>\$ 519,526</u>	<u>\$ 27,002,859</u>
\$ 239,609	\$ 194,020	\$ -	\$ 100	\$ 608,103
95,115	1,386	-	-	388,764
-	-	-	-	166,177
5,560	91,668	-	-	97,228
60,589	6,283	-	21,879	164,237
97,487	2,623	40,066	3,316	3,410,218
-	-	-	-	56,025
<u>\$ 498,360</u>	<u>\$ 295,980</u>	<u>\$ 40,066</u>	<u>\$ 25,295</u>	<u>\$ 4,890,752</u>
\$ -	\$ -	\$ -	\$ -	\$ 167,489
-	-	-	-	697,771
-	-	-	-	28,926
-	-	1,952,532	-	1,952,532
-	-	-	25,000	25,000
-	3,211,485	-	-	3,211,485
-	-	-	-	66,022
775,000	1,350,000	-	-	4,233,353
-	-	-	-	324,337
1,938,314	1,519,587	-	-	10,935,961
-	-	-	469,231	469,231
<u>\$ 2,713,314</u>	<u>\$ 6,081,072</u>	<u>\$ 1,952,532</u>	<u>\$ 494,231</u>	<u>\$ 22,112,107</u>
<u>\$ 3,211,674</u>	<u>\$ 6,377,052</u>	<u>\$ 1,992,598</u>	<u>\$ 519,526</u>	<u>\$ 27,002,859</u>

This page was left blank intentionally.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007**

Fund balances - total governmental funds (Exhibit 3)	\$	22,112,107
Amounts reported for governmental activities in the statement of net assets are different because:		
Investments in joint ventures are reported in governmental activities and are not financial resources. Therefore, they are not reported in the governmental funds.		830,622
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		82,646,162
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.		3,410,218
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$	(8,815,000)
Compensated absences		(1,796,693)
Landfill closure/postclosure		(2,978,840)
Accrued interest payable		(152,420)
Deferred debt issuance charges		64,879
		(13,678,074)
Net Assets of Governmental Activities (Exhibit 1)	\$	<u>95,321,035</u>

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	General	Road and Bridge
Revenues		
Taxes	\$ 6,566,672	\$ 2,457,336
Special assessments	-	-
Licenses and permits	457,945	-
Intergovernmental	3,198,674	6,132,303
Charges for services	3,128,961	1,187,267
Fines and forfeits	73,832	-
Investment income	936,219	-
Miscellaneous	550,475	23,701
	\$ 14,912,778	\$ 9,800,607
Expenditures		
Current		
General government	\$ 5,532,702	\$ -
Public safety	6,122,741	-
Highways and streets	-	8,333,539
Sanitation	-	-
Human services	-	-
Health	2,027,404	-
Culture and recreation	61,710	-
Conservation of natural resources	521,666	4,743
Economic development	53,743	-
Intergovernmental		
Highways and streets	-	326,852
Human services	-	-
Culture and recreation	452,223	-
Debt service		
Principal	-	-
Interest	-	-
	\$ 14,772,189	\$ 8,665,134
Net Change in Fund Balances	\$ 140,589	\$ 1,135,473
Fund Balances - January 1	7,506,546	1,988,485
Increase (decrease) in reserved for inventories	-	99,865
Fund Balances - December 31	\$ 7,647,135	\$ 3,223,823

EXHIBIT 5

Social Services	Solid Waste	Debt Service	Nonmajor Funds	Total
\$ 2,499,169	\$ 77,771	\$ 1,030,989	\$ 70,854	\$ 12,702,791
-	178	-	92	270
-	17,575	-	-	475,520
5,236,405	105,601	273,435	16,287	14,962,705
253,894	1,569,202	-	-	6,139,324
-	-	-	-	73,832
-	117,621	61,004	-	1,114,844
558,863	114,080	17,300	66,772	1,331,191
\$ 8,548,331	\$ 2,002,028	\$ 1,382,728	\$ 154,005	\$ 36,800,477
\$ -	\$ -	\$ 5,023	\$ 148,803	\$ 5,686,528
-	-	-	-	6,122,741
-	-	-	-	8,333,539
-	2,339,668	-	-	2,339,668
8,574,191	-	-	-	8,574,191
-	-	-	-	2,027,404
-	-	-	55,409	117,119
-	-	-	77	526,486
-	-	-	-	53,743
-	-	-	-	326,852
1,571,964	-	-	-	1,571,964
-	-	-	-	452,223
-	-	1,600,000	-	1,600,000
-	-	397,226	15	397,241
\$ 10,146,155	\$ 2,339,668	\$ 2,002,249	\$ 204,304	\$ 38,129,699
\$ (1,597,824)	\$ (337,640)	\$ (619,521)	\$ (50,299)	\$ (1,329,222)
4,311,138	6,418,712	2,572,053	544,530	23,341,464
-	-	-	-	99,865
\$ 2,713,314	\$ 6,081,072	\$ 1,952,532	\$ 494,231	\$ 22,112,107

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (1,329,222)

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

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

Deferred revenue - December 31	\$	3,410,218	
Deferred revenue - January 1		(3,051,704)	358,514

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. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets disposed of.

Expenditures for general capital assets and infrastructure	\$	3,957,342	
Net book value of assets disposed of		(32,053)	
Current year depreciation		(3,414,560)	510,729

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

Principal repayments			
General obligation bonds	\$	1,525,000	
Capital lease		75,000	
Current year amortization of issuance costs		(8,744)	1,591,256

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	\$	23,571	
Change in compensated absences		(351,158)	
Change in estimated liability for landfill closure/postclosure		(240,363)	
Change in inventories		99,865	(468,085)

Transactions to record investment in joint venture

Equity distribution	\$	1,571,964	
Decrease in investment in joint venture		(741,342)	830,622

Change in net assets of governmental activities (Exhibit 2) \$ 1,493,814

MORRISON COUNTY
LITTLE FALLS, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2007

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	\$ 1,063,343
Departmental cash	482
Accrued interest receivable	<u>25,699</u>
Total Assets	<u>\$ 1,089,524</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 1,089,524</u>

This page was left blank intentionally.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Morrison County was established February 23, 1855, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Morrison County (the primary government) and its component unit for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Administrator, who is appointed by the County Board, serves as its clerk.

Discretely Presented Component Unit

The Morrison County Rural Development Finance Authority (RDFA) is a component unit of Morrison County and is reported in a separate column in the government-wide financial statements to emphasize that the RDFA is legally separate from Morrison County. The RDFA was established to promote economic development in rural areas in Morrison County. The RDFA's Board of Commissioners consists of seven members: two are Morrison County Commissioners, two are City of Little Falls Council members, two are appointed by the County Board of Commissioners, and one is appointed by the Little Falls City Council. The RDFA is reported as a component unit of the County because the County can significantly influence the operations of the RDFA.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Unit (Continued)

Complete financial statements of the Morrison County Rural Development Finance Authority can be obtained at 213 First Avenue S.E., Little Falls, Minnesota 56345-3196.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government and its component unit. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported in a single column.

In the government-wide statement of net assets, the governmental activities column: (a) is presented on a consolidated basis, and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those 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.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary fund. 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.

The County reports the following major governmental funds:

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

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

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

The Solid Waste Special Revenue Fund is used to account for all funds to be used for solid waste. Financing comes primarily from fees.

The Debt Service Fund is used to account for the accumulation of resources for, and the payments of, principal, interest, and related costs of the County's long-term bonds.

Additionally, the County reports the following funds:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the County holds for others in an agent capacity. Since, by definition, these assets are being held for the benefit of a third party and cannot be used for activities or obligations of the County, these funds are not incorporated into the government-wide statements.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Morrison 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.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2007, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds 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 2007 were \$936,219.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

2. Receivables and Payables

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

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

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.

Taxes receivable consist of uncollected taxes payable in the years 2002 through 2007. Taxes receivable are offset by deferred revenue for the amount not collectible within 60 days of December 31 to indicate they are not available to pay current expenditures. No provision has been made for an estimated uncollectible amount.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

Special assessments receivable consist of delinquent special assessments payable in the years 2002 through 2007 and deferred special assessments payable in 2008 and after. No provision has been made for an estimated uncollectible amount.

Noncurrent portions of loans receivable are equally offset by a reservation of fund balance to indicate that they should not be considered available spendable resources since they do not represent net current assets.

3. Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. The inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Reported inventories are equally offset by reserved fund balance to indicate that they do not constitute available spendable resources.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation.

The 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.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	25 - 50
Building improvements	40
Public domain infrastructure	50 - 75
Furniture, equipment, and vehicles	5 - 25

5. Compensated Absences

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

6. Deferred Revenue

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Equity

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

9. Use of Estimates

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget at the function level for the year ended December 31, 2007:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund			
Current			
General government	\$ 5,532,702	\$ 5,440,981	\$ 91,721
Public safety	6,122,741	4,998,151	1,124,590
Health	2,027,404	1,934,768	92,636
Culture and recreation	61,710	56,818	4,892
Conservation of natural resources	521,666	371,710	149,956
Special Revenue Funds			
Road and Bridge			
Intergovernmental			
Highways and streets	326,852	-	326,852
Social Services			
Current			
Human services	8,574,191	8,566,800	7,391
Intergovernmental			
Human services	1,571,964	-	1,571,964
County Building			
Current			
General government	100,316	50,000	50,316
County Parks			
Current			
Culture and recreation	55,409	48,000	7,409

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 21,037,944
Petty cash and change funds	10,855
Departmental cash	17,860
Discretely presented component unit	
Cash and pooled investments	178,841
Statement of fiduciary net assets	
Cash and pooled investments	1,063,343
Departmental cash	482
	<hr/>
Total Cash and Investments	<u>\$ 22,309,325</u>

a. Deposits

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

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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, 2007, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. At December 31, 2007, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County does not have a policy on concentration of credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute. At December 31, 2007, the County had no investments requiring a credit rating.

The County does not have additional investment risk policies beyond complying with the requirements of Minnesota statutes.

The following table presents the County's deposit and investment balances at December 31, 2007, and information relating to potential investment risk:

<u>Investment Type</u>	<u>Concentration Risk Over 5 Percent of Portfolio</u>	<u>Interest Rate Risk Maturity Date</u>	<u>Carrying (Fair) Value</u>
Primary government			
Negotiable certificates of deposit	25.7%	<1yr	\$ 818,872
MAGIC Fund	73.8%	N/A	2,349,467
Money market with broker	N/A	N/A	16,484
Total investments			\$ 3,184,823
Deposits			18,759,919
Petty cash and change funds			10,855
Departmental cash			18,342
Cash on hand			156,545
Total cash and investments - primary government			\$ 22,130,484
Component unit			
Deposits			178,841
Total Cash and Investments			\$ 22,309,325

N/A - Not Applicable

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land - infrastructure right-of-way	\$ 1,728,385	\$ 115,694	\$ -	\$ 1,844,079
Land	1,686,839	141,941	-	1,828,780
Total capital assets not depreciated	\$ 3,415,224	\$ 257,635	\$ -	\$ 3,672,859
Capital assets depreciated				
Buildings	\$ 21,814,380	\$ 343,629	\$ -	\$ 22,158,009
Machinery, furniture, and equipment	6,609,723	455,506	202,314	6,862,915
Infrastructure	92,624,783	2,900,572	-	95,525,355
Total capital assets depreciated	\$ 121,048,886	\$ 3,699,707	\$ 202,314	\$ 124,546,279
Less: accumulated depreciation for				
Buildings	\$ 5,898,913	\$ 476,487	\$ -	\$ 6,375,400
Machinery, furniture, and equipment	4,163,558	463,846	170,261	4,457,143
Infrastructure	32,266,206	2,474,227	-	34,740,433
Total accumulated depreciation	\$ 42,328,677	\$ 3,414,560	\$ 170,261	\$ 45,572,976
Total capital assets depreciated, net	\$ 78,720,209	\$ 285,147	\$ 32,053	\$ 78,973,303
Governmental Activities Capital Assets, Net	\$ 82,135,433	\$ 542,782	\$ 32,053	\$ 82,646,162

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

Governmental activities	
General government	\$ 318,249
Public safety	123,750
Highway and streets, including infrastructure assets	2,857,277
Sanitation	77,856
Human services	14,757
Health	22,431
Culture and recreation	240
Total Depreciation Expense - Governmental Activities	<u>\$ 3,414,560</u>

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2007, was as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Social Services	\$ 5,560
Road and Bridge	Solid Waste	91,668
Total		\$ 97,228

The Social Services Special Revenue Fund owed the General Fund for miscellaneous costs. The Solid Waste Special Revenue Fund owed the Road and Bridge Special Revenue Fund for the purchase of land.

2. Advance From/To Other Funds

During 1998, the Solid Waste Special Revenue Fund loaned the Road and Bridge Special Revenue Fund \$1,500,000 to finance construction of County roads. Beginning in 1999, the Road and Bridge Special Revenue Fund was to start making annual payments of \$100,000 over a 15-year period to pay back the loan. The Road and Bridge Special Revenue Fund paid off the remaining \$600,000 balance in 2007.

C. Liabilities

1. Payables

Payables at December 31, 2007, were as follows:

	Governmental Activities
Accounts	\$ 608,103
Salaries	388,764
Contracts	166,177
Due to other governments	164,237
Accrued interest	152,420
Total Payables	\$ 1,479,701

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Deferred Revenue

Deferred revenue consists of taxes and special assessments receivable, state grants not collected soon enough after year-end to pay liabilities of the current period, and state and federal grants received but not yet earned. Deferred revenue at December 31, 2007, is summarized below by fund:

	Special Assessments	Taxes	Grants	Total
Major governmental funds				
General	\$ -	\$ 232,620	\$ 56,025	\$ 288,645
Road and Bridge	-	92,607	2,941,499	3,034,106
Social Services	-	97,487	-	97,487
Solid Waste	414	2,209	-	2,623
Debt Service	-	40,066	-	40,066
Nonmajor governmental funds				
County Building	-	1,788	-	1,788
County Parks	-	815	-	815
County Ditch	713	-	-	713
	<u>\$ 1,127</u>	<u>\$ 467,592</u>	<u>\$ 2,997,524</u>	<u>\$ 3,466,243</u>
Deferred revenue				
Unavailable	\$ 1,127	\$ 467,592	\$ 2,941,499	\$ 3,410,218
Unearned	-	-	56,025	56,025
	<u>\$ 1,127</u>	<u>\$ 467,592</u>	<u>\$ 2,997,524</u>	<u>\$ 3,466,243</u>

3. Vacation and Sick Leave

County employees are granted paid time off, in varying amounts, depending on union/non-union status and length of service.

The County pays unused accumulated paid time off to employees upon termination based on two different severance plans. Unvested paid time off valued at \$1,075,223 at December 31, 2007, is available to employees in the event of an absence but is not paid to them at termination.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Retired Employee Health Insurance Benefits

Pursuant to Minn. Stat. § 471.61, subd. 2a, the County pays \$175 per month towards the health insurance for retired union and non-union employees. Retired Sheriff deputies that are union members receive \$170 per month towards health insurance, and non-union deputies receive \$175 per month. Insurance for retired persons is applied from the date of retirement until age 65. The rates are based on the County's group health policy rates.

The County recognizes the cost of providing health insurance for postemployment benefits on a pay-as-you-go basis. The County contribution for this benefit, paid by the General Fund for the year ended December 31, 2007, was \$26,775 for the eligible employees.

5. Long-Term Debt - Bonds

Bond payments are typically made from the debt service funds. Information on individual bonds payable were as follows:

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2007
General obligation bonds					
1998 G.O. Capital Improvement Plan Refunding Bonds	2012	\$30,000 - \$220,000	4.10 - 4.90	\$ 975,000	\$ 530,000
2001 G.O. Capital Improvement Refunding Bonds	2010	\$210,000 - \$260,000	2.25 - 3.75	1,850,000	750,000
2002 G.O. Capital Improvement Plan Bonds	2018	\$155,000 - \$510,000	4.20 - 4.80	3,250,000	3,250,000
2002 G.O. Jail Revenue Refunding Bonds	2010	\$355,000 - \$430,000	3.00 - 3.55	2,725,000	1,245,000
2003 G.O. Capital Improvement Plan Bonds	2018	\$30,000 - \$65,000	2.50 - 4.25	705,000	590,000
2006A G.O. Capital Improvement Plan Bonds	2018	\$170,000 - \$230,000	4.00 - 4.25	1,785,000	1,785,000
2006B G.O. Capital Improvement Plan Bonds	2011	\$150,000 - \$180,000	4.00	665,000	665,000
Total General Obligation Bonds				<u>\$ 11,955,000</u>	<u>\$ 8,815,000</u>

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Debt Service Requirements

Debt service requirements at December 31, 2007, were as follows:

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2008	\$ 920,000	\$ 349,539
2009	970,000	315,493
2010	1,180,000	275,209
2011	780,000	236,183
2012	625,000	206,643
2013 - 2017	3,535,000	595,199
2018	805,000	18,509
Total	<u>\$ 8,815,000</u>	<u>\$ 1,996,775</u>

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 10,340,000	\$ -	\$ 1,525,000	\$ 8,815,000	\$ 920,000
Installment purchase	75,000	-	75,000	-	-
Compensated absences	1,445,535	351,158	-	1,796,693	210,665
Estimated liability for closure/postclosure	<u>2,738,477</u>	<u>240,363</u>	<u>-</u>	<u>2,978,840</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 14,599,012</u>	<u>\$ 591,521</u>	<u>\$ 1,600,000</u>	<u>\$ 13,590,533</u>	<u>\$ 1,130,665</u>

8. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place the final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$2,978,840 landfill closure and postclosure care liability at December 31, 2007, represents the cumulative amount

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

8. Landfill Closure and Postclosure Care Costs (Continued)

reported to date based on the use of 94.83 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$162,402 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2007. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The County is in compliance with these requirements and is currently making monthly payments for financial assurance to the Solid Waste Special Revenue Fund under financial hardship status. Hardship was granted based on the current Solid Waste Management Plan, which is based on a five-year planning period. In the spring of 1994, Morrison County received approval of its Solid Waste Management Plan, which granted Morrison County ten years of Certificate of Need for solid waste management. At December 31, 2007, the County has restricted net assets of \$3,211,485 to finance closure and postclosure care. The County expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenues.

4. Pension Plans

A. Plan Description

All full-time and certain part-time employees of Morrison County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

4. Pension Plans

A. Plan Description (Continued)

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates are covered by the Public Employees Correctional Fund.

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

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

For all Public Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

4. Pension Plans

A. Plan Description (Continued)

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 Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent. Public Employees Police and Fire Fund members were required to contribute 7.80 percent of their annual covered salary in 2007. That rate increased to 8.60 percent in 2008. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2007 and 2008:

	<u>2007</u>	<u>2008</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50
Public Employees Police and Fire Fund	11.70	12.90
Public Employees Correctional Fund	8.75	8.75

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

4. Pension Plans

B. Funding Policy (Continued)

The County's contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2007	\$ 605,590	\$ 133,885	\$ 103,229
2006	523,215	100,920	92,367
2005	451,950	82,448	86,290

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

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. 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 \$400,000 per claim in 2007 and \$410,000 per claim in 2008. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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.

B. Joint Ventures

1. Central Minnesota Community Corrections Agency

The Central Minnesota Community Corrections Agency was established by Crow Wing and Morrison Counties in 1974 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, for the purpose of administering, budgeting, staffing, and operating correctional facilities. Effective January 1, 1992, Aitkin County became a member of the Agency. Crow Wing County maintains the accounting records of the Agency.

The governing board is composed of five County Commissioners from each of the participating counties.

The Central Minnesota Community Corrections Agency is funded through state grants and contributions from Aitkin, Crow Wing, and Morrison Counties. Morrison County had expenditures of \$327,574 for community corrections in 2007.

In the event of dissolution of the Agency, the unexpended balance of monies and assets held by the Agency will be divided between the counties in proportion to their contributions.

Complete financial information can be obtained from:

Central Minnesota Community Corrections Agency
Crow Wing County Courthouse
326 Laurel Street
Brainerd, Minnesota 56401

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

2. Little Falls-Morrison County Airport Commission

The Little Falls-Morrison County Airport Commission was established in 1965, under the authority of Minn. Stat. § 360.042, for the purpose of constructing, operating, and maintaining an airport facility. The City of Little Falls maintains the accounting records of the Commission. The financial activity of the Commission is reported as the Airport Special Revenue Fund, a blended component unit, in the City of Little Falls' annual financial report.

The governing board is composed of six members: three members appointed by the City of Little Falls and three members appointed by Morrison County. The Commission is financed through federal and state grants, earnings from concessions, leases, and charges made for the use of airport facilities. The City and the County share the remainder of the costs equally.

In the event of dissolution of the Commission, all property acquired, including surplus funds, will be divided between the City and the County as follows:

- a. All assets, other than capital improvement assets, will be disposed of in any manner agreed upon by the City of Little Falls and Morrison County. If no agreement is reached within three months after termination, the County Board will appoint an individual as its representative, and the City Council will appoint an individual, who may be a City official, as its representative. The Minnesota Commissioner of Aeronautics will appoint a third person who, together with the City and County appointees, will constitute an advisory board on disposition of the airport property. This board will, as soon as possible, prepare and recommend to the City Council and County Board a complete plan for the disposition of the property. The plan will provide for the continuation of the use of the property as a public airport, if practicable.
- b. If the agreement is terminated by action of Morrison County, all capital improvement assets will belong to the City of Little Falls free and clear of any claim by the County.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

2. Little Falls-Morrison County Airport Commission (Continued)

- c. If the agreement is terminated by action of the City of Little Falls, all capital improvement assets jointly owned by the City and County will belong to the City of Little Falls, provided the City pays the County 50 percent of the depreciated value of the capital improvement assets.

Morrison County provided \$22,496 in funding to the Commission during 2007. Financial information for the Commission can be obtained from:

Little Falls-Morrison County Airport Commission
Little Falls City Hall
100 N.E. 7th Avenue
Little Falls, Minnesota 56345

3. Cass-Todd-Wadena-Morrison Community Health Services

The County Boards of Cass, Morrison, Todd, and Wadena Counties formed a Board of Health in 1977 via a joint powers agreement for the purpose of maintaining an integrated system of community health services under Minn. Stat. ch. 145A. The full Board of Health is composed of five County Commissioners in each of the four counties. The Board appoints an executive committee composed of two County Commissioners from each of the four counties. An advisory committee composed of three representatives from each of the single county advisory committees makes recommendations to the Board throughout the year. An administrative task force composed of the four public health directors meets on a monthly basis.

The four counties share responsibility to provide secretarial and financial services and to carry out the administrative requirements of the Board of Health. The four public health directors rotate the administrator position each year. The Cass County Auditor serves as the fiscal agent. Separate financial information is not available.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

4. Morrison County Interagency Coordinating Council

The Morrison County Interagency Coordinating Council (MCICC) was established pursuant to Minn. Stat. § 124D.23. Participants include Mid-State Education District #6979; Tri-County Community Action; Morrison County Public Health; Morrison County Social Services; Morrison County Corrections; and Independent School Districts 482, 484, 485, 486, and 487.

The purpose of the MCICC is to strengthen the network of prevention, early identification, and intervention services for children, youth, and families in Morrison County.

Control of the MCICC is vested in a governing board, which is composed of the Morrison County Social Services Director, the Morrison County Public Health Director, a Morrison County Corrections representative, and the Mid-State Education District Director. Morrison County Social Services is the fiscal agent for the MCICC. Financial information for the MCICC is accounted for in the Local Collaborative Agency Fund of Morrison County.

5. Central Minnesota Emergency Medical Services Region

The Central Minnesota Emergency Medical Services Region (CMEMSR) was established in 2001 pursuant to Minn. Stat. § 471.59, and is currently operating under a memorandum of understanding between the Counties of Benton, Cass, Chisago, Crow Wing, Isanti, Kanabec, Mille Lacs, Morrison, Pine, Sherburne, Stearns, Todd, Wadena, and Wright.

The purpose of the CMEMSR is to improve the planning, coordination, and implementation of emergency medical services within the member counties.

The CMEMSR has established a board which has general supervision over its activities. The Board consists of 14 County Commissioners, one from each of the member counties. Stearns County is the fiscal agent for the CMEMSR and reports the CMEMSR's activities in an agency fund in its financial statements.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

5. Central Minnesota Emergency Medical Services Region (Continued)

Complete financial information can be obtained from:

Scott Miller, Regional EMS Coordinator
Central Minnesota Emergency Medical Services Region
Stearns County Administration Center
705 Courthouse Square
St. Cloud, Minnesota 56303

6. South Country Health Alliance

The South Country Health Alliance (SCHA) was created by a joint powers agreement between Brown, Dodge, Freeborn, Goodhue, Kanabec, Mower, Sibley, Steele, Wabasha, and Waseca Counties on July 24, 1998, under Minn. Stat. § 471.59. Mower County has since withdrawn. In 2007, Cass, Crow Wing, Morrison, Todd, and Wadena Counties became members. The agreement was in accordance with Minn. Stat. § 256B.692, which allows the formation of a board of directors to operate, control, and manage all matters concerning the participating counties' health care functions, referred to as county-based purchasing.

The purpose of the SCHA is to improve the social and health outcomes of its clients and all citizens of its member counties by better coordinating social service, public health and medical services, and promoting the achievement of public health goals. The SCHA is authorized to provide prepaid comprehensive health maintenance services to persons enrolled under Medicaid and General Assistance Medical Care in each of the member counties.

Each member county has an explicit and measurable right to its share of the total capital surplus of the SCHA. Gains and losses are allocated annually to all members based on the percentage of their utilization. The County's equity interest in the SCHA at December 31, 2007, was \$830,622. Morrison County's share of SCHA's net loss for the year ended December 31, 2007, was \$741,342. The equity interest is reported as an investment in joint venture on the government-wide statement of net assets. Changes in equity are included in the government-wide statement of activities as human services expenses.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

6. South Country Health Alliance (Continued)

Complete financial statements for the SCHA may be obtained from its fiscal agent at:

630 Florence Avenue
P. O. Box 890
Owatonna, Minnesota 55060-0890

6. Subsequent Event

The South Country Health Alliance, a joint venture, has recommended a capital call from its members for 2008. Morrison County's share of the capital call is \$791,740, payable in two installments. The first installment of \$395,870 was paid by the County on May 22, 2008; the second half installment of \$395,870 is due no later than November 25, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 6,385,357	\$ 6,385,357	\$ 6,566,672	\$ 181,315
Licenses and permits	403,711	403,711	457,945	54,234
Intergovernmental	2,897,396	2,897,396	3,198,674	301,278
Charges for services	2,449,299	2,449,299	3,128,961	679,662
Fines and forfeits	55,000	55,000	73,832	18,832
Investment income	500,000	500,000	936,219	436,219
Miscellaneous	435,500	435,500	550,475	114,975
Total Revenues	\$ 13,126,263	\$ 13,126,263	\$ 14,912,778	\$ 1,786,515
Expenditures				
Current				
General government				
Commissioners	\$ 250,487	\$ 250,487	\$ 252,866	\$ (2,379)
Courts	25,000	25,000	42,447	(17,447)
Law library	50,000	50,000	45,486	4,514
Administrator	312,776	312,776	319,668	(6,892)
Risk management administration	250,474	250,474	253,635	(3,161)
County auditor	661,753	661,753	583,948	77,805
Motor vehicle/license bureau	282,070	282,070	274,558	7,512
County treasurer	216,854	216,854	211,139	5,715
County assessor	684,390	684,390	671,202	13,188
Data processing	439,117	439,117	422,957	16,160
Attorney	647,646	647,646	632,756	14,890
Recorder	337,707	337,707	407,303	(69,596)
Surveyor	2,400	2,400	2,100	300
Planning and zoning	340,732	340,732	317,472	23,260
Buildings and plant	700,607	700,607	685,150	15,457
Veterans service officer	166,668	166,668	170,782	(4,114)
Appropriations - airport	27,000	27,000	22,496	4,504
Other general government	45,300	45,300	216,737	(171,437)
Total general government	\$ 5,440,981	\$ 5,440,981	\$ 5,532,702	\$ (91,721)
Public safety				
Sheriff	\$ 2,372,641	\$ 2,372,641	\$ 3,394,154	\$ (1,021,513)
Boat and water safety	22,458	22,458	21,008	1,450
Emergency services	60,000	60,000	4,799	55,201
Coroner	63,753	63,753	70,816	(7,063)
County jail	2,136,699	2,136,699	2,241,461	(104,762)
Civil defense	65,375	65,375	62,929	2,446
Community corrections	277,225	277,225	327,574	(50,349)
Total public safety	\$ 4,998,151	\$ 4,998,151	\$ 6,122,741	\$ (1,124,590)
Health				
Nursing service	\$ 1,934,768	\$ 1,934,768	\$ 2,027,404	\$ (92,636)

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

**Schedule 1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Culture and recreation				
Historical society	\$ 42,818	\$ 42,818	\$ 42,710	\$ 108
Other	14,000	14,000	19,000	(5,000)
Total culture and recreation	\$ 56,818	\$ 56,818	\$ 61,710	\$ (4,892)
Conservation of natural resources				
County extension	\$ 149,970	\$ 149,970	\$ 146,611	\$ 3,359
Soil and water conservation	72,500	72,500	107,017	(34,517)
Agricultural society	45,336	45,336	79,123	(33,787)
Water planning	44,564	44,564	27,256	17,308
Other	59,340	59,340	161,659	(102,319)
Total conservation of natural resources	\$ 371,710	\$ 371,710	\$ 521,666	\$ (149,956)
Economic development				
Community development	\$ 53,743	\$ 53,743	\$ 53,743	\$ -
Intergovernmental				
Culture and recreation				
Library	\$ 452,223	\$ 452,223	\$ 452,223	\$ -
Total Expenditures	\$ 13,308,394	\$ 13,308,394	\$ 14,772,189	\$ (1,463,795)
Net Change in Fund Balance	\$ (182,131)	\$ (182,131)	\$ 140,589	\$ 322,720
Fund Balance - January 1	7,506,546	7,506,546	7,506,546	-
Fund Balance - December 31	\$ 7,324,415	\$ 7,324,415	\$ 7,647,135	\$ 322,720

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,460,067	\$ 2,460,067	\$ 2,457,336	\$ (2,731)
Intergovernmental	7,398,753	7,398,753	6,132,303	(1,266,450)
Charges for services	315,000	315,000	1,187,267	872,267
Miscellaneous	-	-	23,701	23,701
Total Revenues	\$ 10,173,820	\$ 10,173,820	\$ 9,800,607	\$ (373,213)
Expenditures				
Current				
Highways and streets				
Administration	\$ 335,495	\$ 335,495	\$ 308,982	\$ 26,513
Maintenance	1,787,305	1,787,305	2,007,565	(220,260)
Construction	6,712,208	6,712,208	4,845,199	1,867,009
Equipment, maintenance, and shops	1,011,042	1,011,042	990,978	20,064
Other	315,000	315,000	180,815	134,185
Total highways and streets	\$ 10,161,050	\$ 10,161,050	\$ 8,333,539	\$ 1,827,511
Conservation of natural resources				
Agricultural inspector	12,770	12,770	4,743	8,027
Intergovernmental				
Highways and streets	-	-	326,852	(326,852)
Debt service				
Bond issuance costs	-	42,424	-	42,424
Total Expenditures	\$ 10,173,820	\$ 10,216,244	\$ 8,665,134	\$ 1,551,110
Net Change in Fund Balance	\$ -	\$ (42,424)	\$ 1,135,473	\$ 1,177,897
Fund Balance - January 1	1,988,485	1,988,485	1,988,485	-
Increase (decrease) in reserved for inventories	-	-	99,865	99,865
Fund Balance - December 31	\$ 1,988,485	\$ 1,946,061	\$ 3,223,823	\$ 1,277,762

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,500,553	\$ 2,500,553	\$ 2,499,169	\$ (1,384)
Intergovernmental	5,034,897	5,034,897	5,236,405	201,508
Charges for services	884,300	884,300	253,894	(630,406)
Miscellaneous	50	50	558,863	558,813
Total Revenues	\$ 8,419,800	\$ 8,419,800	\$ 8,548,331	\$ 128,531
Expenditures				
Current				
Human services				
Income maintenance	\$ 3,058,175	\$ 3,058,175	\$ 2,901,899	\$ 156,276
Social services	5,508,625	5,508,625	5,672,292	(163,667)
Total human services	\$ 8,566,800	\$ 8,566,800	\$ 8,574,191	\$ (7,391)
Intergovernmental				
Human services	-	-	1,571,964	(1,571,964)
Total Expenditures	\$ 8,566,800	\$ 8,566,800	\$ 10,146,155	\$ (1,579,355)
Net Change in Fund Balance	\$ (147,000)	\$ (147,000)	\$ (1,597,824)	\$ (1,450,824)
Fund Balance - January 1	4,311,138	4,311,138	4,311,138	-
Fund Balance - December 31	\$ 4,164,138	\$ 4,164,138	\$ 2,713,314	\$ (1,450,824)

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 79,043	\$ 79,043	\$ 77,771	\$ (1,272)
Special assessments	-	-	178	178
Licenses and permits	20,000	20,000	17,575	(2,425)
Intergovernmental	99,957	99,957	105,601	5,644
Charges for services	1,506,000	1,506,000	1,569,202	63,202
Investment income	-	-	117,621	117,621
Miscellaneous	15,000	15,000	114,080	99,080
Total Revenues	\$ 1,720,000	\$ 1,720,000	\$ 2,002,028	\$ 282,028
Expenditures				
Current				
Sanitation				
Solid waste	2,804,403	2,804,403	2,339,668	464,735
Net Change in Fund Balance	\$ (1,084,403)	\$ (1,084,403)	\$ (337,640)	\$ 746,763
Fund Balance - January 1	6,418,712	6,418,712	6,418,712	-
Fund Balance - December 31	\$ 5,334,309	\$ 5,334,309	\$ 6,081,072	\$ 746,763

This page was left blank intentionally.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2007**

1. Budgetary Information

The County Board adopts an annual budget for the following major funds: General Fund, and the Road and Bridge, Social Services, and Solid Waste Special Revenue Funds. These budgets are prepared on the modified accrual basis of accounting. Annual budgets are not adopted for the Debt Service Fund.

Based on a process established by the County Board, all departments of the County submit requests for appropriations to the County Administrator each year. After review, analysis, and discussions with the departments, the County Administrator's proposed budget is presented to the County Board for review. The County Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The overall budget is prepared by fund, function, and department. The legal level of budgetary control--the level at which expenditures may not legally exceed appropriations--is the function level. Budgets may be amended during the year with proper approval.

Encumbrance accounting is employed in governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-apportioned and honored during the subsequent year.

2. Excess of Expenditures Over Budget

The following major governmental funds had expenditures in excess of budget at the function level for the year ended December 31, 2007:

	Expenditures	Final Budget	Excess
General Fund			
Current			
General government	\$ 5,532,702	\$ 5,440,981	\$ 91,721
Public safety	6,122,741	4,998,151	1,124,590
Health	2,027,404	1,934,768	92,636
Culture and recreation	61,710	56,818	4,892
Conservation of natural resources	521,666	371,710	149,956

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

2. Excess of Expenditures Over Budget (Continued)

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Road and Bridge Special Revenue Fund			
Intergovernmental			
Highways and streets	\$ 326,852	\$ -	\$ 326,852
Social Services Special Revenue Fund			
Current			
Human services	8,574,191	8,566,800	7,391
Intergovernmental			
Human services	1,571,964	-	1,571,964

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

NONMAJOR FUNDS

SPECIAL REVENUE FUNDS

The special revenue funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for specified purposes.

County Building - to account for funds accumulated for the repair of buildings used for County administration. Financing is provided primarily by an annual property tax levy.

County Parks - to account for the operation, maintenance, and development of the County's park system including acquisition of land, park development, park maintenance, and administration of park activities. Financing is provided primarily by an annual property tax levy and service and use fees.

County Ditch - to account for the cost of maintaining County Ditch 901. Financing is provided by special assessments against the benefited property owners.

Revolving Loan - to account for the County's cooperative project revolving loan program.

Forfeited Tax - to account for all funds collected per state statute for sales of property forfeited for unpaid taxes.

AGENCY FUNDS

The agency funds are used to account for assets held by the County as an agent for other governmental units, individuals, or private organizations.

Local Collaborative - to account for the collection and payment of amounts due to the Morrison County Interagency Coordinating Council.

Motor Vehicle - to account for the collection and payment of fees and licenses for motor vehicles, boats, and snowmobiles.

Special Districts - to account for the collection and distribution of tax levies for districts other than schools, towns, and cities.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

NONMAJOR FUNDS

AGENCY FUNDS
(Continued)

School Districts - to account for the collection and distribution of tax levies for school districts.

State Revenue - to account for transfers of the State of Minnesota's share of mortgage registry taxes.

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

Towns and Cities - to account for the collection and distribution of tax levies for towns and cities.

Morrison, Todd, and Wadena Board of Health - to account for the receipts and disbursements of the Morrison, Todd, and Wadena Board of Health.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	Special Revenue Funds					Total
	County Building	County Parks	County Ditch	Revolving Loan	Forfeited Tax	
Assets						
Cash and pooled investments	\$ 274,462	\$ 107,131	\$ -	\$ 87,738	\$ 21,879	\$ 491,210
Delinquent taxes receivable	1,788	815	-	-	-	2,603
Special assessments receivable						
Delinquent	-	-	65	-	-	65
Deferred	-	-	648	-	-	648
Loans receivable	-	-	-	25,000	-	25,000
Total Assets	\$ 276,250	\$ 107,946	\$ 713	\$ 112,738	\$ 21,879	\$ 519,526
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ -	\$ 100	\$ -	\$ -	\$ -	\$ 100
Due to other governments	-	-	-	-	21,879	21,879
Deferred revenue - unavailable	1,788	815	713	-	-	3,316
Total Liabilities	\$ 1,788	\$ 915	\$ 713	\$ -	\$ 21,879	\$ 25,295
Fund Balances						
Reserved for loans receivable	\$ -	\$ -	\$ -	\$ 25,000	\$ -	\$ 25,000
Unreserved						
Designated for economic development	-	-	-	87,738	-	87,738
Undesignated	274,462	107,031	-	-	-	381,493
Total Fund Balances	\$ 274,462	\$ 107,031	\$ -	\$ 112,738	\$ -	\$ 494,231
Total Liabilities and Fund Balances	\$ 276,250	\$ 107,946	\$ 713	\$ 112,738	\$ 21,879	\$ 519,526

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Statement 2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Special Revenue Funds					Total
	County Building	County Parks	County Ditch	Revolving Loan	Forfeited Tax	
Revenues						
Taxes	\$ 39,982	\$ 30,872	\$ -	\$ -	\$ -	\$ 70,854
Special assessments	-	-	92	-	-	92
Intergovernmental	10,510	5,777	-	-	-	16,287
Miscellaneous	16,085	-	-	2,200	48,487	66,772
Total Revenues	\$ 66,577	\$ 36,649	\$ 92	\$ 2,200	\$ 48,487	\$ 154,005
Expenditures						
Current						
General government	\$ 100,316	\$ -	\$ -	\$ -	\$ 48,487	\$ 148,803
Culture and recreation	-	55,409	-	-	-	55,409
Conservation of natural resources	-	-	77	-	-	77
Debt service						
Interest	-	-	15	-	-	15
Total Expenditures	\$ 100,316	\$ 55,409	\$ 92	\$ -	\$ 48,487	\$ 204,304
Net Change in Fund Balances	\$ (33,739)	\$ (18,760)	\$ -	\$ 2,200	\$ -	\$ (50,299)
Fund Balances - January 1	308,201	125,791	-	110,538	-	544,530
Fund Balances - December 31	\$ 274,462	\$ 107,031	\$ -	\$ 112,738	\$ -	\$ 494,231

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
COUNTY BUILDING SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 39,490	\$ 39,490	\$ 39,982	\$ 492
Intergovernmental	10,510	10,510	10,510	-
Miscellaneous	-	-	16,085	16,085
Total Revenues	\$ 50,000	\$ 50,000	\$ 66,577	\$ 16,577
Expenditures				
Current				
General government	50,000	50,000	100,316	(50,316)
Net Change in Fund Balance	\$ -	\$ -	\$ (33,739)	\$ (33,739)
Fund Balance - January 1	308,201	308,201	308,201	-
Fund Balance - December 31	\$ 308,201	\$ 308,201	\$ 274,462	\$ (33,739)

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
COUNTY PARKS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 21,723	\$ 21,723	\$ 30,872	\$ 9,149
Intergovernmental	5,777	5,777	5,777	-
Total Revenues	\$ 27,500	\$ 27,500	\$ 36,649	\$ 9,149
Expenditures				
Current				
Culture and recreation				
Parks	48,000	48,000	55,409	(7,409)
Net Change in Fund Balance	\$ (20,500)	\$ (20,500)	\$ (18,760)	\$ 1,740
Fund Balance - January 1	125,791	125,791	125,791	-
Fund Balance - December 31	\$ 105,291	\$ 105,291	\$ 107,031	\$ 1,740

FIDUCIARY FUNDS

This page was left blank intentionally.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>LOCAL COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 655,608	\$ 362,874	\$ 359,971	\$ 658,511
Departmental cash	2,855	482	2,855	482
Accrued interest receivable	-	25,699	-	25,699
Total Assets	<u>\$ 658,463</u>	<u>\$ 389,055</u>	<u>\$ 362,826</u>	<u>\$ 684,692</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 658,463</u>	<u>\$ 389,055</u>	<u>\$ 362,826</u>	<u>\$ 684,692</u>
 <u>MOTOR VEHICLE</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 8,743</u>	<u>\$ 348,546</u>	<u>\$ 338,807</u>	<u>\$ 18,482</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 8,743</u>	<u>\$ 348,546</u>	<u>\$ 338,807</u>	<u>\$ 18,482</u>
 <u>SPECIAL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ -</u>	<u>\$ 176,596</u>	<u>\$ 176,596</u>	<u>\$ -</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ -</u>	<u>\$ 176,596</u>	<u>\$ 176,596</u>	<u>\$ -</u>

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 7,305,503	\$ 7,305,503	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 7,305,503	\$ 7,305,503	\$ -
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 75,400	\$ 925,651	\$ 952,557	\$ 48,494
<u>Liabilities</u>				
Due to other governments	\$ 75,400	\$ 925,651	\$ 952,557	\$ 48,494
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 317,345	\$ 33,977,430	\$ 33,956,919	\$ 337,856
<u>Liabilities</u>				
Due to other governments	\$ 317,345	\$ 33,977,430	\$ 33,956,919	\$ 337,856

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 231	\$ 7,919,302	\$ 7,919,533	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 231	\$ 7,919,302	\$ 7,919,533	\$ -
 <u>MORRISON, TODD, AND WADENA BOARD OF HEALTH</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 667,299	\$ 667,299	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 667,299	\$ 667,299	\$ -
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,057,327	\$ 51,683,201	\$ 51,677,185	\$ 1,063,343
Departmental cash	2,855	482	2,855	482
Accrued interest receivable	-	25,699	-	25,699
Total Assets	\$ 1,060,182	\$ 51,709,382	\$ 51,680,040	\$ 1,089,524
<u>Liabilities</u>				
Due to other governments	\$ 1,060,182	\$ 51,709,382	\$ 51,680,040	\$ 1,089,524

This page was left blank intentionally.

OTHER SCHEDULE

This page was left blank intentionally.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Schedule 7

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2007**

Shared Revenue

State

Highway users tax	\$	4,920,642
County program aid		1,496,620
Market value credit - real property		1,738,938
Market value credit - mobile home		6,290
PERA rate reimbursement		48,267
Disparity reduction aid		29,104
Police aid		100,920
Enhanced 911		112,361
		112,361

Total Shared Revenue **\$ 8,453,142**

Reimbursement for Services

Minnesota Department of Human Services	\$	2,220,243
		2,220,243

Payments

Local

City contributions	\$	22,550
Payments in lieu of taxes		198,353
		198,353

Total Payments **\$ 220,903**

Grants

State

Minnesota Department of		
Corrections	\$	32,579
Public Safety		10,956
Health		147,274
Natural Resources		208,131
Human Services		1,758,633
Veterans Services		4,200
Water and Soil Resources Board		107,612
Pollution Control Agency		84,644
Peace Officer Standards and Training Board		8,442
		8,442

Total State **\$ 2,362,471**

Federal

Department of		
Agriculture	\$	227,836
Justice		415
Transportation		370,293
Health and Human Services		1,054,942
Homeland Security		52,460
		52,460

Total Federal **\$ 1,705,946**

Total State and Federal Grants **\$ 4,068,417**

Total Intergovernmental Revenue **\$ 14,962,705**

This page was left blank intentionally.

This page was left blank intentionally.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Schedule 8

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Morrison County.
- B. Deficiencies in internal control were disclosed by the audit of financial statements of Morrison County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Morrison County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for Morrison County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:
 - Highway Planning and Construction CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Morrison County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-2 Departmental Internal Accounting Control

Due to the limited number of office personnel within the various County offices, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Offices that do not have sufficient segregation of duties include Recorder, Planning and Zoning, Sheriff, Jail, Public Health, Highway, Social Services, and Extension. In these offices, there may be only one employee to receive and account for departmental collections. This is not unusual in small departmental situations; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Examples of incompatible duties that should be performed by separate individuals are:

- receipting collections, posting collections to registers, and making bank deposits;
- signing checks and reconciling the bank accounts;
- receipting collections and posting collections to the accounts receivable records;
- approving receivable write-offs/write-downs and posting adjustments to the accounts receivable records; and
- data entry, adjusting accounting codes, and reviewing the monthly detailed report of receipts and disbursements for accuracy.

Some procedures the County's management may wish to consider to strengthen controls in these offices include:

- Departmental collections should be remitted to the County Treasurer more frequently than once each month, perhaps weekly or even daily, to reduce the amount of funds on hand.

- Department heads should monitor operations within their offices to determine that reports are submitted properly and are in agreement with cash balances and grant expenditures.
- When an office has only a department head and one other employee, the department head should perform some of the accounting functions.

We recommend that County management be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that adequate controls are in place over cash, receivables, and other items.

Client's Response:

Morrison County is fully aware of the limited number of office personnel in various offices and will do what is necessary to ensure that the assets of Morrison County are protected.

06-1 Audit Adjustments

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

During our audit, we identified the following material audit adjustments:

- In the Road and Bridge Special Revenue Fund, receivables were increased by \$149,953, deferred revenue was increased by \$967,711, and intergovernmental revenues were decreased by \$817,758 for state-aid highway project allotments.
- Net assets were increased and human services expenses were decreased by \$830,622 to record the County's investment in joint venture for the South Country Health Alliance.

Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

We recommend the County establish internal controls necessary to determine that all adjusting entries are made to ensure the County's annual financial statements are reported in accordance with GAAP.

Client's Response (Deputy Auditor/Finance Director):

As far as the Road and Bridge Special Revenue Fund entry, I thought I did it the same as the 2006 entry according to State Auditor's Office work papers. I will pay more attention to this entry next year and make sure that I work with staff to ensure it is correct.

The South Country Health Alliance was an entry that I consulted the State Auditor's Office Staff on how to handle this entry. I thought that the entry had been handled properly. I will pay more attention to this in 2008.

ITEMS ARISING THIS YEAR

07-1 Segregation of Duties - Disbursements

During our review of the general disbursement process, we noted several individuals have the ability to both process disbursements and set up new vendors. If at all possible, these duties should be segregated. Someone independent of the disbursement process should review, verify, and approve new vendors at least monthly.

We recommend that management re-evaluate whether separation of duties between disbursements and vendor set up is possible. Procedures should be developed to monitor new vendors entered into the system.

Client's Response:

At the end of the month the Auditor and Deputy Auditor/Finance Director will review vendors added by taking option 5020 on the IFS system and verify vendors added during the month Report IFD39. A copy of this will be filed with the warrant register at the end of the month.

07-2 Segregation of Duties - Payroll

During our review of the County's payroll function, we noted that the individual who processes payroll also has the ability to change pay rates and add new employees to the payroll system. These duties should ideally be segregated. However, if that is not practical, changes to pay rates and additions of new employees should be monitored by someone independent of payroll processing on a monthly basis.

We recommend the County re-evaluate whether payroll staff need to have the ability to change pay rates and add new employees. In addition, to strengthen internal controls, someone independent of the payroll processing function should review payroll edit reports to monitor that any pay rate changes made or new employees added were authorized.

Client's Response:

At the end of the month, the Auditor and Deputy Auditor/Finance Director will match the Status Change Form from the Administrator's Office (the form the Payroll Tech uses to enter changes) with the Payroll Validations Report (ACS Report PR210R-V11.01) and sign off verifying entry of payroll changes.

07-3 Controls Over Accounting System Journal Entries

Morrison County limits access to the journal entry function to certain County employees. During our review of the journal entry function, we noted that those employees given access can both create and post a journal entry without review or approval by a second person.

The ability to make journal entries on the accounting system is a powerful function because it allows changes to be made to the general ledger system. Controls over journal entries should require:

- limited access to only those employees whose job duties require it;
- an explanation of why the journal entry is being made and who is making it;
- sufficient documentation to support the journal entry amounts;

- proper supervisory review and approval of journal entries; and
- evidence that controls have been monitored by someone independent of the journal entry process.

We recommend the County strengthen controls over the journal entry process by: (1) adopting formal policies and procedures over the journal entry process, and (2) requiring journal entries to display evidence that they were reviewed by a second individual. In addition, a report should be generated periodically that shows journal entries that are not automatic or routine that have been posted to the general ledger system. Review and monitoring of this report should be done on a regular basis to ensure that journal entries made have been reviewed and approved.

Client's Response:

Most journal entries made are initiated by Department Heads or by the County Board through Board Action. The Deputy Auditor/Finance Director verifies that a Journal entry is needed to correct the problem and then makes the correct Journal Entry. As we move forward, the policy will be that the County Auditor will sign off on all monthly Journal Entries and verify.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

03-1 Administrative Offense Procedures

The Morrison County Board created Administrative Offense Procedures through the adoption of several ordinances. Pursuant to these ordinances, Sheriff Department deputies issue administrative civil penalty tickets (hereinafter “administrative tickets”) for various state traffic offenses including speeding, failure to obey traffic signals, and improper turns. Eleven of the County ordinance violations define the offense by referring to the appropriate section of Minn. Stat. ch. 169.

Minn. Stat. ch. 169 clearly states, and a Minnesota Attorney General's opinion concluded, that local public entities do not have authority to issue administrative tickets for state traffic offenses. When state law has already defined a traffic violation and penalty, the Sheriff Department's only decision and authority is whether to issue a ticket or not. There is no discretion allowed for the County to redefine the amount to be collected for such a penalty.

At Morrison County, however, deputies decide whether to give motorists a warning, issue a state ticket, or issue a County administrative ticket for violations that are traffic offenses for both state law and County ordinance purposes. If a County administrative ticket is issued, the amount to be paid does not include the surcharges for court costs that would have been included with a state ticket, and Morrison County keeps all the revenue without forwarding any portion to the state. In addition, state traffic violations committed in Morrison County are kept off the state's driving records, leaving them unknown to insurance companies, law enforcement officers in other agencies, and the Minnesota Department of Public Safety. For the year ended December 31, 2007, Morrison County has deposited \$52,900 into its General Fund from these County administrative civil penalties.

In December 2003, the Minnesota Attorney General addressed the issue of cities using similar "administrative fines" for state traffic offenses. The Minnesota Attorney General quoted Minn. Stat. § 169.022:

The provisions of this chapter shall be applicable and uniform throughout this State and in all political subdivisions and municipalities therein, and no local authority shall enact or enforce any rule or regulation in conflict with the provisions of this chapter unless expressly authorized herein. 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 penalty provided for in this chapter for the same offense.

Since the Morrison County administrative civil penalties are not provided for in Minn. Stat. ch. 169, they violate Minn. Stat. § 169.022. The Minnesota Attorney General went on to comment that law enforcement officers should make law enforcement decisions based on culpability and evidence, not on "the offender's willingness to make a payment

directly to the city.” The Minnesota Attorney General concluded that, by enacting Minn. Stat. ch. 169, the State has pre-empted the field with respect to these traffic offenses. The Minnesota Attorney General stated, “It is not consistent with State public policy for a public official to direct or urge that city police officers not enforce the law of the State to the best of their judgment and ability.” Consequently, cities are not authorized to change the nature of penalties for criminal offenses specified by chapter 169.

Further, Minn. Stat. § 169.99 prescribes a uniform ticket to be used for “violations of this chapter and ordinances in conformity thereto.” The administrative ticket designed and used in Morrison County does not comply with this statute. Therefore, the use of the County’s administrative ticket for Minn. Stat. ch. 169 offenses violates the express requirements of Minn. Stat. § 169.99.

Counties are subordinate agencies of the state. It is a function of counties to implement State policy. They do not exist exclusively for the benefit of their citizens. Kasch v. Clearwater County, 289 N.W.2d 148, 151 (Minn. 1980). The adoption by Morrison County of the Administrative Offense Procedures as discussed represents not only failure on the part of the County and its Commissioners to fulfill their function and duty of enforcing and upholding state law, but also an intentional violation of state law.

We strongly recommend Morrison County comply with Minn. Stat. ch. 169. The County should immediately discontinue its practice of providing administrative tickets for traffic violations that are different than those provided by state law. Tickets used by the County for state traffic violations must be in the form prescribed by law. Administrative Offense Procedures and ordinances adopted by the County must be consistent with statutory provisions. The County should notify and work with the Minnesota Department of Finance to determine if the County owes any amounts to the state for fines collected.

Client’s Response:

Morrison County respectfully disagrees with the State Auditor’s determination that the County’s Administrative Offense Procedures Ordinance violates Minnesota law. County officials, including the County Board, have carefully reviewed the written opinions of the State Auditor and Attorney General, the proposed comment to the 2007 audit, and applicable State law.

The County believes:

- (1) The Administrative Offense Procedure Ordinance adopted by Morrison County in September 2003 establishes an economical, speedy, and fair method of imposing penalties on individuals guilty of violating the Morrison County Traffic and Criminal Code. The County's traffic and criminal code covers minor, nuisance-type offenses. Before the advent of administrative tickets, deputies often gave verbal or written warnings to individuals committing these offenses. The Administrative Offense Procedures Ordinance holds individuals who violate the traffic or criminal code accountable by requiring them to pay a modest fine.*
- (2) Violator's due process rights are adequately protected under the Morrison County ordinances. An individual given an administrative citation is entitled to an administrative hearing where the violator, law enforcement officer, and other witnesses will all have an opportunity to testify and be subject to cross-examination before a hearing officer. In addition, the violator can ask that the offense be removed from the administrative procedure; and a State court citation will be issued.*
- (3) The administrative process relieves some of the pressure on the State court system. The use of administrative procedures for nuisance offenses reserves scarce court resources for more important criminal and civil matters. The State Legislature has identified a strong public policy of reducing the burden on State courts. This policy is evident through the requirement that every county establish diversion programs for juveniles and adults and the Court's insistence on alternative dispute resolution. Prosecution of nuisance offenses through an administration procedure would be identified as a "best practice" if the State were not concerned about a potential loss of revenue. Fair, inexpensive, and speedy resolutions of minor offenses should be encouraged.*
- (4) The Morrison County administrative ordinances are complimentary to, not incompatible with, State law. To be incompatible, an ordinance must be irreconcilable when read together with State law. That is, it must permit what the State prohibits or prohibit what the State allows. The ordinances adopted by Morrison County clearly are not incompatible; in fact, the majority of offenses are defined by reference to state law.*

- (5) *The field of traffic law is not preempted by Minnesota Statute 169. Minn. Stat. § 169.022 specifically states, “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 penalty provided for in this chapter for the same offense.” Had the legislature intended to preempt the field of traffic regulation, it would certainly not have specifically allowed local ordinances.*
- (6) *Minn. Stat. § 169.022 does require penalties established by local ordinances be identical to those established by State law. Morrison County adopted a resolution setting penalties for traffic offenses between \$25 and \$60. State law sets the penalty for these same offenses as petty misdemeanors that carry a maximum penalty of \$300. The exact amount of the penalty for each offense is dependent by the uniform fine schedule prepared by the chief judges of the district courts. This fine schedule can be adjusted from year to year and is occasionally adjusted by local courts. As long as the County’s fine schedule is within the petty misdemeanor limit, i.e., \$300 or less, the County has conformed the requirements of Minn. Stat. § 169.022.*
- (7) *Minn. Stat. § 169.99 requires a uniform traffic ticket. This is a procedural, not a substantive law. A full reading of the statute makes it clear that uniformity is required for the benefit of the court system. Because administrative tickets are not handled by the court system, this statute has no bearing on the form of ticket used by the County.*
- (8) *Morrison County is only one of a number of municipalities that use administrative procedures for minor offenses. The system has proven to be an effective law enforcement tool. The County believes that this issue should be resolved by the Legislature. To the end and at the County’s urging, local legislators introduced a bill in the 2005 legislative session to specifically allow local authorities to issue administrative citations. That bill, Senate File 1042, and a bill to prohibit administration tickets, S.F. 1713, were both heard by the Senate Transportation Committee on March 31, 2005. Police chiefs and city administrators from around the state, along with representatives from Morrison County, testified at the hearing. The committee approved the bill authorizing administrative tickets and rejected the bill prohibiting them. To the best of our knowledge, no further action was taken by the Legislature. Morrison County will continue to pursue legislative authority for administrative tickets in the coming legislative sessions.*



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

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

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

Board of County Commissioners
Morrison County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrison County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination

of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-2, 06-1, and 07-1 through 07-3, to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Morrison County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 03-1.

Morrison County's written responses to the significant deficiencies and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 26, 2008

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

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

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

Board of County Commissioners
Morrison County

Compliance

We have audited the compliance of Morrison County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2007. Morrison County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Morrison County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

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

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrison County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 26, 2008. Our audit was performed for the purpose of forming opinions on the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

November 26, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

This page was left blank intentionally.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Schedule 9

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 144,235
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	1,101
Passed Through Minnesota Department of Natural Resources Cooperative Forestry Assistance	10.664	<u>82,500</u>
Total U.S. Department of Agriculture		\$ 227,836
U.S. Department of Justice		
Direct Bulletproof Vest Partnership Program	16.607	<u>\$ 415</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 503,958
Passed Through Minnesota Department of Public Safety Highway Planning and Construction	20.205	1,915
State and Community Highway Safety	20.600	11,052
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	<u>3,681</u>
Total U.S. Department of Transportation		\$ 520,606
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 15,602
Temporary Assistance for Needy Families (TANF) Child Care Cluster	93.558	184,505
Child Care and Development Block Grant Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.575	92,741
Child Welfare Services - State Grants	93.596	94,739
Foster Care (Title IV-E)	93.645	19,474
Social Services Block Grant (Title XX)	93.658	135,363
Chafee Foster Care Independence Program	93.667	219,204
Block Grants for Community Mental Health Services	93.674	5,083
Block Grants for Prevention and Treatment of Substance Abuse	93.958	6,413
	93.959	158,975

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Schedule 9
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Health		
Immunization Grants	93.268	2,200
Temporary Assistance for Needy Families (TANF)	93.558	32,071
Center for Disease Control and Prevention - Investigations and Technical Assistance	93.283	46,868
Maternal and Child Health Services Block Grant	93.994	41,704
Total U.S. Department of Health and Human Services		\$ 1,054,942
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 8,091
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	13,675
Homeland Security Grant Program	97.067	30,694
Total U.S. Department of Homeland Security		\$ 52,460
Total Federal Awards		\$ 1,856,259

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Morrison County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are based on the modified accrual basis of accounting. Due to timing differences in revenue recognition under the modified accrual basis, expenditures on this schedule may not match the federal revenues reported in the financial statements. In 2007, \$150,313 of current year federal expenditures for CFDA No. 20.205 were not recognized as revenues because they were not received within the period of availability.
3. During 2007, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.