

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto  
State Auditor**

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**AITKIN COUNTY  
AITKIN, MINNESOTA**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

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

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

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

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

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

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

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

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

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

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

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**AITKIN COUNTY  
AITKIN, MINNESOTA**

**Year Ended December 31, 2006**



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

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**AITKIN COUNTY  
AITKIN, MINNESOTA**

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AITKIN, MINNESOTA**

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AITKIN, MINNESOTA**

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**AITKIN COUNTY  
AITKIN, MINNESOTA**

**ORGANIZATION  
AS OF DECEMBER 31, 2006**

		<u>Term Expires</u>
Elected		
Commissioners		
District 1	Jon Olson	January 2007
District 2	Dale Lueck	January 2009
District 3	Paul Bailey	January 2007
District 4	Brian Napstad	January 2009
District 5	Jonathan E. (Reggie) Lee	January 2007
Attorney	Thomas Murtha IV	January 2007
Auditor	Kirk Peysar	January 2007
Recorder	Diane Lafferty	January 2007
Sheriff	Scott Turner	January 2007
Treasurer	Vernon Nelson	January 2007
Appointed		
Administrator	Scott Arneson	Indefinite
Assessor	Don Niemi	December 2008
Engineer	John Welle	December 2008
Coroner	Dr. M. B. McGee	Indefinite
Health and Human Services		
Director	Tom Burke	Indefinite
Veterans Service Officer	Robert Nelson	Indefinite

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Aitkin County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Aitkin County, Minnesota, as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Aitkin 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 financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Aitkin County as of and for the year ended December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the required supplementary information 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 Aitkin County's basic financial statements. The supplementary information and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 26, 2007, on our consideration of Aitkin County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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

September 26, 2007

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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

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**AITKIN COUNTY  
AITKIN, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006  
(Unaudited)**

The Aitkin County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2006. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

**FINANCIAL HIGHLIGHTS**

- Governmental activities have total net assets of \$84,027,376, of which \$54,246,032 is invested in capital assets, net of related debt, and \$8,188,741 is restricted to specific purposes.
- Business-type activities have total net assets of \$3,285,454. Invested in capital assets, net of related debt, represents \$3,434,982 of the total. Of the total business-type net assets, \$5,000 are restricted for specific uses.
- Aitkin County's net assets increased by \$4,180,859 for the year ended December 31, 2006. Of the increase, \$4,360,097 was in governmental activities net assets, and business-type activities reduced net assets by \$179,238. The net assets of the County's discretely presented component unit decreased by \$69,230.
- The cost of primary government activities increased by \$2,097,393 to \$23,120,787 for the current fiscal year. Program revenues of \$12,514,964 offset those costs. A portion of the net cost was funded by general revenues and other items totaling \$14,786,682.
- Governmental funds' fund balances increased by \$543,371.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

In the Statement of Net Assets and the Statement of Activities, we divide the County into three kinds of activities:

**Governmental activities**--Most of the County's basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, and conservation of natural resources. Property taxes and state and federal grants finance most of these activities.

**Business-type activities**--The County charges a fee to customers to help it cover all or most of the costs of these services it provides. The Long Lake Conservation Center's activities are reported here.

**Component units**--The County includes one separate legal entity in its report. The Aitkin Municipal Airport is presented in a separate column. Although legally separate, this "component unit" is important because the County is financially accountable.

## **Fund Financial Statements**

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

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

**Proprietary funds**--When the County charges customers for the services it provides, whether to outside customers or to other units of the County, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the County's enterprise fund (a component of proprietary funds) is the same as the business-type activities we report in the government-wide statements but provides more detail and additional information, such as cash flows.

## **Reporting the County's Fiduciary Responsibilities**

The County is the trustee, or fiduciary, over certain assets. All of the County's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## **THE COUNTY AS A WHOLE**

Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental and business-type activities for the year ended December 31, 2006, with comparative amounts for 2005.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 34,392	\$ 34,162	\$ (101)	\$ (36)	\$ 34,291	\$ 34,126
Capital assets	57,326	52,809	3,435	3,554	60,761	56,363
Total Assets	\$ 91,718	\$ 86,971	\$ 3,334	\$ 3,518	\$ 95,052	\$ 90,489
Long-term debt outstanding	\$ 4,561	\$ 4,617	\$ 15	\$ 16	\$ 4,576	\$ 4,633
Other liabilities	3,130	2,687	34	37	3,164	2,724
Total Liabilities	\$ 7,691	\$ 7,304	\$ 49	\$ 53	\$ 7,740	\$ 7,357
Net Assets						
Invested in capital assets, net of debt	\$ 54,246	\$ 49,379	\$ 3,435	\$ 3,554	\$ 57,681	\$ 52,933
Restricted	7,831	7,481	5	2	7,836	7,483
Unrestricted	21,950	22,807	(155)	(91)	21,795	22,716
Total Net Assets	\$ 84,027	\$ 79,667	\$ 3,285	\$ 3,465	\$ 87,312	\$ 83,132

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

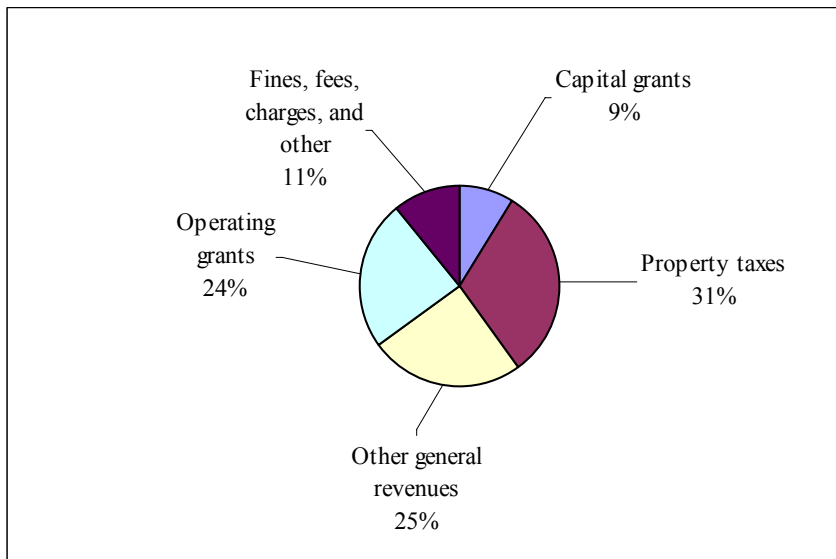
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues						
Fines, fees, charges, and other	\$ 2,850	\$ 2,633	\$ 682	\$ 735	\$ 3,532	\$ 3,368
Operating grants	6,457	5,971	15	9	6,472	5,980
Capital grants	2,510	2,380	-	-	2,510	2,380
General revenues						
Property taxes	8,341	7,653	-	-	8,341	7,653
Other taxes	1,052	921	-	-	1,052	921
Grants and contributions	2,352	2,576	-	-	2,352	2,576
Other general revenues	3,042	3,774	-	-	3,042	3,774
Total Revenues	\$ 26,604	\$ 25,908	\$ 697	\$ 744	\$ 27,301	\$ 26,652
Expenses						
General government	\$ 4,452	\$ 3,865	\$ -	\$ -	\$ 4,452	\$ 3,865
Public safety	4,332	4,125	-	-	4,332	4,125
Highways and streets	4,726	3,731	-	-	4,726	3,731
Sanitation	364	318	-	-	364	318
Human services	4,990	4,957	-	-	4,990	4,957
Health	549	501	-	-	549	501
Culture and recreation	867	594	-	-	867	594
Conservation of natural resources	1,705	1,774	889	892	2,594	2,666
Economic development	93	82	-	-	93	82
Interest	154	184	-	-	154	184
Total Expenses	\$ 22,232	\$ 20,131	\$ 889	\$ 892	\$ 23,121	\$ 21,023

(Unaudited)

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	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Excess of Revenues Over (Under) Expenses	\$ 4,372	\$ 5,777	\$ (192)	\$ (148)	\$ 4,180	\$ 5,629
Transfers	(12)	(185)	12	185	-	-
Increase (Decrease) in Net Assets	\$ 4,360	\$ 5,592	\$ (180)	\$ 37	\$ 4,180	\$ 5,629
Net Assets, January 1	79,667	74,075	3,465	3,428	83,132	77,503
Net Assets, December 31	\$ 84,027	\$ 79,667	\$ 3,285	\$ 3,465	\$ 87,312	\$ 83,132

### Total County Revenues by Source



### Governmental Activities (unless otherwise indicated, all amounts are in thousands)

The cost of all activities this year was \$22,232. However, as shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through County taxes was \$8,341 because some of the cost was paid by those who directly benefited from the programs (\$2,850) or by other governments and organizations that subsidized certain programs with grants and contributions (\$8,967).

Table 3 presents the cost of each of the County’s five largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden that was placed on the County’s taxpayers by each of these functions.

**Table 3  
Governmental Activities  
(in thousands)**

Activity	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Human services	\$ 4,990	\$ 4,957	\$ 1,952	\$ 1,917
Highways and streets	4,726	3,731	(343)	(1,334)
General government	4,452	3,865	2,879	2,759
Public safety	4,332	4,125	3,214	3,145
Conservation of natural resources	1,704	1,774	1,158	1,453
Totals	<u>\$ 20,204</u>	<u>\$ 18,452</u>	<u>\$ 8,860</u>	<u>\$ 7,940</u>

### **Business-Type Activities**

Revenues of the County’s business-type activities decreased by 6.3 percent, and expenses decreased less than half a percent.

### **The County’s Funds (in thousands)**

As the County completed the year, its governmental funds reported a combined fund balance of \$27,381, which is above last year’s total of \$26,837. Included in this year’s total fund balance is a surplus of \$4,739 in the County’s General Fund. The General Fund’s change in fund balance (an increase of \$670 for 2006) represented the largest factor for the total increase (\$544) in governmental fund balances. Most of the General Fund’s increase is due to revenues exceeding expectations.

### **General Fund Budgetary Highlights (in thousands)**

The actual charges to appropriations (expenditures) were \$792 above the final budget amounts. The most significant negative variance is due to the unbudgeted purchase of two tracts of real estate for \$619. The real estate will be held for the future expansion of County facilities. Actual revenues exceeded budgeted revenues by \$1,633. The most significant positive variances are due to the following: increased boarding revenues in the Sheriff’s Department, the rate of return on County investments was greater than the amount budgeted, and resources available for appropriation were above the final budgeted amount due to greater than expected collections for certain fees and charges for services. During 2006, the County Board authorized a budget amendment for \$10 for additional staffing time to the Extension Department.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets (in thousands)

At the end of 2006, the County had \$60,761 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of \$4,398, or 7.8 percent, over the last year.

**Table 4**  
**Capital Assets at Year-End**  
**(Net of Depreciation, in thousands)**

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	\$ 2,140	\$ 1,628	\$ 15	\$ 15	\$ 2,155	\$ 1,643
Construction in progress	318	330	20	9	338	339
Buildings and improvements	9,976	9,397	3,372	3,495	13,348	12,892
Machinery and equipment	2,501	1,854	28	35	2,529	1,889
Infrastructure	42,391	39,600	-	-	42,391	39,600
Totals	<u>\$ 57,326</u>	<u>\$ 52,809</u>	<u>\$ 3,435</u>	<u>\$ 3,554</u>	<u>\$ 60,761</u>	<u>\$ 56,363</u>

This year's major additions include:

County Road 3	Aggregate Base and Bituminous Surfacing	\$ 1,212
County Road 7	Bituminous Base	857
County Road 29	Grading/Aggregate Base	743

The County's fiscal year 2007 capital budget calls for it to spend another \$4,957 for capital projects, principally for highway and street improvements. Additional information on capital assets is found in Note 3.A.3. to the financial statements.

**Debt (in thousands)**

At year-end, the County had \$3,645 in bonds and notes outstanding versus \$3,729 last year, a decrease of 2.3 percent, as shown in Table 5.

**Table 5  
Outstanding Debt at Year-End  
(in thousands)**

	Governmental Activities	
	2006	2005
General obligation bonds and notes (backed by the County)	\$ 2,660	\$ 2,920
General obligation revenue notes	50	50
Certificates of participation	420	510
Clear Water Partnership Project notes	96	120
Minnesota Department of Agriculture notes	129	129
Minnesota Department of Natural Resources loan	290	-
Totals	<u>\$ 3,645</u>	<u>\$ 3,729</u>

The County’s general obligation bond rating is “A1,” a rating assigned by national rating agencies to the County’s debt. The state limits the amount of net debt the County can issue to two percent of the market value of all taxable property in the County. The County’s outstanding net debt is significantly below this \$47,189 state-imposed limit.

Other obligations include accrued vacation pay and sick leave payable. More detailed information about the County’s long-term liabilities is presented in the notes to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

The County’s elected and appointed officials considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for the business-type activities.

- The State of Minnesota had projected a significant budget deficit; it is anticipated that there will be significant reductions in state aids to local governments.
- An increase in the unemployment rate in 2007 could impact the level of services requested by County residents.
- The population of Aitkin County is increasing dramatically. This increase is creating increased demands for services across several service areas.

## **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 show the County's accountability for the money it receives. If you have questions about this report, or need additional information, contact Kirk Peysar, Aitkin County Auditor, Aitkin County Courthouse, 209 Second Street N.W., Room 202, Aitkin, Minnesota 56431.

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**AITKIN COUNTY  
AITKIN, MINNESOTA**

**EXHIBIT 1**

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

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 27,930,564	\$ -	\$ 27,930,564	\$ 59,170
Petty cash and change funds	5,000	-	5,000	-
Cash with escrow agent	194,103	-	194,103	-
Cash with fiscal agent	173,645	-	173,645	-
Taxes receivable				
Prior - net	332,434	-	332,434	-
Special assessments receivable				
Prior - net	1,826	-	1,826	-
Noncurrent - net	22,901	-	22,901	-
Accounts receivable - net	3,337,919	41,471	3,379,390	-
Loans receivable	196,105	-	196,105	-
Accrued interest receivable	129,736	21	129,757	-
Internal balances	149,059	(149,059)	-	-
Due from other governments	1,633,544	-	1,633,544	-
Deferred charges	28,993	-	28,993	-
Prepaid items	5,465	-	5,465	-
Deposits receivable	25,000	-	25,000	-
Inventories	226,339	4,977	231,316	-
Restricted assets				
Cash and pooled investments	-	2,000	2,000	-
Capital assets				
Non-depreciable	2,457,660	35,063	2,492,723	104,146
Depreciable - net of accumulated depreciation	54,868,372	3,399,919	58,268,291	559,488
<b>Total Assets</b>	<b>\$ 91,718,665</b>	<b>\$ 3,334,392</b>	<b>\$ 95,053,057</b>	<b>\$ 722,804</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 721,213	\$ 2,797	\$ 724,010	\$ -
Salaries payable	651,560	30,945	682,505	-
Contracts payable	562,807	-	562,807	-
Due to other governments	1,099,893	-	1,099,893	-
Accrued interest payable	10,204	-	10,204	-
Unearned revenue	84,662	-	84,662	-
Long-term liabilities				
Due within one year	419,578	1,658	421,236	-
Due in more than one year	4,141,372	13,538	4,154,910	-
<b>Total Liabilities</b>	<b>\$ 7,691,289</b>	<b>\$ 48,938</b>	<b>\$ 7,740,227</b>	<b>\$ -</b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

**EXHIBIT 1  
(Continued)**

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

	<b>Primary Government</b>			<b>Discretely Presented Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	
<b><u>Net Assets</u></b>				
Invested in capital assets - net of related debt	\$ 54,246,032	\$ 3,434,982	\$ 57,681,014	\$ 663,634
Restricted for				
General government	372,828	-	372,828	-
Public safety	292,980	-	292,980	-
Culture and recreation	919,363	-	919,363	-
Conservation of natural resources	3,056,746	-	3,056,746	-
Highways and streets	1,296,215	-	1,296,215	-
Sanitation	584,677	-	584,677	-
Capital projects	-	3,000	3,000	-
Debt service	503,910	-	503,910	-
Other purposes	804,920	2,000	806,920	-
Unrestricted	21,949,705	(154,528)	21,795,177	59,170
<b>Total Net Assets</b>	<b>\$ 84,027,376</b>	<b>\$ 3,285,454</b>	<b>\$ 87,312,830</b>	<b>\$ 722,804</b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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

	Expenses	Fees, Charges, Fines, and Other	Program Revenues Operating Grants and Contributions
<b>Functions/Programs</b>			
<b>Primary government</b>			
<b>Governmental activities</b>			
General government	\$ 4,451,700	\$ 1,089,253	\$ 102,075
Public safety	4,332,311	865,341	252,951
Highways and streets	4,726,472	270,664	2,670,157
Sanitation	363,513	40,607	-
Human services	4,989,503	456,521	2,580,489
Health	549,415	62,675	288,317
Culture and recreation	866,958	10,294	31,223
Conservation of natural resources	1,704,731	14,251	532,142
Economic development	92,677	40,531	-
Interest	154,363	-	-
<b>Total governmental activities</b>	<b>\$ 22,231,643</b>	<b>\$ 2,850,137</b>	<b>\$ 6,457,354</b>
<b>Business-type activities</b>			
Long Lake Conservation Center	889,144	682,204	15,467
<b>Total primary government</b>	<b>\$ 23,120,787</b>	<b>\$ 3,532,341</b>	<b>\$ 6,472,821</b>
<b>Component unit</b>			
Aitkin Municipal Airport Commission	<b>\$ 121,053</b>	<b>\$ 16,394</b>	<b>\$ 1,757</b>

**General Revenues**

Property taxes  
Mortgage registry and deed tax  
Other taxes  
Payments in lieu of tax  
Grants and contributions not restricted to specific programs  
Unrestricted investment earnings  
Miscellaneous

**Transfers**

**Total general revenues and transfers**

**Change in net assets**

**Net Assets - Beginning**

**Net Assets - Ending**

**EXHIBIT 2**

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets			Discretely Presented Component Unit
	Primary Government		Total	
	Governmental Activities	Business-Type Activities		
\$ 381,207	\$ (2,879,165)	\$ -	\$ (2,879,165)	
-	(3,214,019)	-	(3,214,019)	
2,128,595	342,944	-	342,944	
-	(322,906)	-	(322,906)	
-	(1,952,493)	-	(1,952,493)	
-	(198,423)	-	(198,423)	
-	(825,441)	-	(825,441)	
-	(1,158,338)	-	(1,158,338)	
-	(52,146)	-	(52,146)	
-	(154,363)	-	(154,363)	
<b>\$ 2,509,802</b>	<b>\$ (10,414,350)</b>	<b>\$ -</b>	<b>\$ (10,414,350)</b>	
-	-	(191,473)	(191,473)	
<b>\$ 2,509,802</b>	<b>\$ (10,414,350)</b>	<b>\$ (191,473)</b>	<b>\$ (10,605,823)</b>	
<b>\$ 33,376</b>				<b>\$ (69,526)</b>
	\$ 8,340,855	\$ -	\$ 8,340,855	\$ -
	26,925	-	26,925	-
	35,067	-	35,067	-
	990,364	-	990,364	-
	2,351,595	-	2,351,595	-
	1,350,363	72	1,350,435	296
	1,691,441	-	1,691,441	-
	(12,163)	12,163	-	-
	<b>\$ 14,774,447</b>	<b>\$ 12,235</b>	<b>\$ 14,786,682</b>	<b>\$ 296</b>
	<b>\$ 4,360,097</b>	<b>\$ (179,238)</b>	<b>\$ 4,180,859</b>	<b>\$ (69,230)</b>
	<b>79,667,279</b>	<b>3,464,692</b>	<b>83,131,971</b>	<b>792,034</b>
	<b>\$ 84,027,376</b>	<b>\$ 3,285,454</b>	<b>\$ 87,312,830</b>	<b>\$ 722,804</b>

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**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

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**AITKIN COUNTY  
AITKIN, MINNESOTA**

**EXHIBIT 3**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>	<u>Forfeited Tax Sale</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>						
Cash and pooled investments	\$ 16,429,122	\$ 2,451,120	\$ 3,368,292	\$ 2,888,814	\$ 2,793,216	\$ 27,930,564
Petty cash and change funds	2,000	-	3,000	-	-	5,000
Cash with fiscal agent	173,645	-	-	-	-	173,645
Cash with escrow agent	194,103	-	-	-	-	194,103
Taxes receivable						
Prior	192,182	50,660	72,910	-	16,682	332,434
Special assessments receivable						
Prior	-	-	-	-	1,826	1,826
Noncurrent	-	-	-	-	22,901	22,901
Accounts receivable	18,135	13,625	31,249	3,261,160	13,750	3,337,919
Accrued interest receivable	129,736	-	-	-	-	129,736
Loans receivable	196,105	-	-	-	-	196,105
Due from other funds	478,123	30,766	-	-	396,629	905,518
Due from other governments	43,453	1,308,431	279,566	2,094	-	1,633,544
Inventories	-	226,339	-	-	-	226,339
Prepaid items	-	-	5,465	-	-	5,465
Deposits receivable	25,000	-	-	-	-	25,000
<b>Total Assets</b>	<b><u>\$ 17,881,604</u></b>	<b><u>\$ 4,080,941</u></b>	<b><u>\$ 3,760,482</u></b>	<b><u>\$ 6,152,068</u></b>	<b><u>\$ 3,245,004</u></b>	<b><u>\$ 35,120,099</u></b>
<b><u>Liabilities and Fund Balances</u></b>						
<b>Liabilities</b>						
Accounts payable	\$ 259,830	\$ 207,130	\$ 223,660	\$ 28,975	\$ 1,618	\$ 721,213
Salaries payable	362,864	86,314	160,574	35,593	6,215	651,560
Contracts payable	-	562,807	-	-	-	562,807
Compensated absences - current	2,269	379	6,962	371	221	10,202
Due to other funds	9,505	-	-	716,188	30,766	756,459
Due to other governments	6,450	-	8,335	227,060	-	241,845
Deferred revenue - unavailable	147,856	1,195,404	55,583	3,260,564	51,356	4,710,763
Timber permit bonds	-	-	-	84,662	-	84,662
<b>Total Liabilities</b>	<b><u>\$ 788,774</u></b>	<b><u>\$ 2,052,034</u></b>	<b><u>\$ 455,114</u></b>	<b><u>\$ 4,353,413</u></b>	<b><u>\$ 90,176</u></b>	<b><u>\$ 7,739,511</u></b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

**EXHIBIT 3  
(Continued)**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>	<u>Forfeited Tax Sale</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
<b><u>Liabilities and Fund Balances</u></b>						
<b>(Continued)</b>						
<b>Fund Balances</b>						
Reserved for						
Inventories	\$ -	\$ 226,339	\$ -	\$ -	\$ -	\$ 226,339
Missing heirs	-	-	-	24,136	-	24,136
Law library	-	-	-	82,171	-	82,171
Sheriff's contingency	5,000	-	-	-	-	5,000
Debt service	367,746	-	-	-	-	367,746
Enhanced 911	221,401	-	-	-	-	221,401
Loans receivable	169,374	-	-	-	-	169,374
Recorder's equipment	158,336	-	-	-	-	158,336
Recorder's technology	128,556	-	-	-	-	128,556
Attorney grant carryover	3,765	-	-	-	-	3,765
County parks	347,331	-	-	-	-	347,331
Prisoner welfare	47,628	-	-	-	-	47,628
STS carryover	1,946	-	-	-	-	1,946
Capital membership	25,000	-	-	-	-	25,000
County development	-	-	-	778,969	-	778,969
Unclaimed property	-	-	-	1,815	-	1,815
Life line	-	-	-	617	-	617
Conservation forfeited tax sale	-	-	-	174	-	174
Forfeited tax sale	-	-	-	25,939	-	25,939
Environmental purposes	-	-	-	-	489,479	489,479
Conservation of natural resources	14,251	-	-	-	-	14,251
Gun permit carryover	18,951	-	-	-	-	18,951
Unreserved						
Designated for						
Future expenditures	938,727	97,535	-	15,000	-	1,051,262
Cash flows	8,728,645	-	-	-	-	8,728,645
Workers' compensation	-	-	-	869,834	-	869,834
Solid waste	584,677	-	-	-	-	584,677
Economic development	592,253	-	-	-	-	592,253
Undesignated	4,739,243	1,705,033	3,305,368	-	-	9,749,644
Unreserved, reported in nonmajor						
Special revenue funds	-	-	-	-	2,529,185	2,529,185
Debt service fund	-	-	-	-	136,164	136,164
<b>Total Fund Balances</b>	<b>\$ 17,092,830</b>	<b>\$ 2,028,907</b>	<b>\$ 3,305,368</b>	<b>\$ 1,798,655</b>	<b>\$ 3,154,828</b>	<b>\$ 27,380,588</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 17,881,604</b>	<b>\$ 4,080,941</b>	<b>\$ 3,760,482</b>	<b>\$ 6,152,068</b>	<b>\$ 3,245,004</b>	<b>\$ 35,120,099</b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

**EXHIBIT 4**

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

<b>Fund balances - total governmental funds</b>	<b>\$</b>	<b>27,380,588</b>
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		57,326,032
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds (See Note 1.E.1.).		3,852,715
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 - including issuance premium	\$ (2,826,850)	
General obligation notes	(146,190)	
Loans payable	(418,797)	
Compensated absences (not reported in the funds)	(738,911)	
Accrued interest payable	(10,204)	
Certificates of participation	(420,000)	
Deferred debt issuance charges	28,993	(4,531,959)
<b>Net assets of governmental activities</b>	<b>\$</b>	<b><u>84,027,376</u></b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

**EXHIBIT 5**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>	<u>Forfeited Tax Sale</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>						
Taxes	\$ 4,850,679	\$ 1,279,946	\$ 1,847,926	\$ -	\$ 419,459	\$ 8,398,010
Special assessments	-	-	-	-	1,624	1,624
Licenses and permits	103,307	-	-	-	5,675	108,982
Intergovernmental	3,265,527	5,671,685	3,395,836	238,954	282,958	12,854,960
Charges for services	1,661,427	269,532	20,837	32,711	-	1,984,507
Fines and forfeits	48,523	-	-	-	-	48,523
Gifts and contributions	500	-	-	-	-	500
Interest on investments	1,324,644	-	-	-	25,719	1,350,363
Miscellaneous	257,096	14,867	462,008	1,860,970	38,370	2,633,311
<b>Total Revenues</b>	<b>\$ 11,511,703</b>	<b>\$ 7,236,030</b>	<b>\$ 5,726,607</b>	<b>\$ 2,132,635</b>	<b>\$ 773,805</b>	<b>\$ 27,380,780</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	\$ 5,486,292	\$ -	\$ -	\$ 55,535	\$ 1,295	\$ 5,543,122
Public safety	3,945,285	-	-	-	15,979	3,961,264
Highways and streets	-	8,416,733	-	-	2,400	8,419,133
Sanitation	346,522	-	-	-	-	346,522
Human services	-	-	4,959,696	-	-	4,959,696
Health	6,629	-	537,650	-	-	544,279
Culture and recreation	867,655	-	-	-	-	867,655
Conservation of natural resources	242,088	-	-	1,060,603	434,790	1,737,481
Economic development	91,423	-	-	-	-	91,423
<b>Intergovernmental</b>						
Public safety	163,918	-	-	-	-	163,918
<b>Debt service</b>						
Principal	114,313	-	-	-	260,000	374,313
Interest	27,495	-	-	-	158,167	185,662
Administrative charges	-	-	-	-	200	200
<b>Total Expenditures</b>	<b>\$ 11,291,620</b>	<b>\$ 8,416,733</b>	<b>\$ 5,497,346</b>	<b>\$ 1,116,138</b>	<b>\$ 872,831</b>	<b>\$ 27,194,668</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 220,083</b>	<b>\$ (1,180,703)</b>	<b>\$ 229,261</b>	<b>\$ 1,016,497</b>	<b>\$ (99,026)</b>	<b>\$ 186,112</b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

***EXHIBIT 5  
(Continued)***

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>	<u>Forfeited Tax Sale</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
<b>Other Financing Sources (Uses)</b>						
Transfers in	\$ 464,788	\$ 101,681	\$ -	\$ 2,764	\$ 390,105	\$ 959,338
Transfers out	(14,927)	-	-	(839,214)	(117,360)	(971,501)
Loans issued	-	-	-	-	290,000	290,000
<b>Total Other Financing Sources (Uses)</b>	<u>\$ 449,861</u>	<u>\$ 101,681</u>	<u>\$ -</u>	<u>\$ (836,450)</u>	<u>\$ 562,745</u>	<u>\$ 277,837</u>
<b>Net Change in Fund Balances</b>	<b>\$ 669,944</b>	<b>\$ (1,079,022)</b>	<b>\$ 229,261</b>	<b>\$ 180,047</b>	<b>\$ 463,719</b>	<b>\$ 463,949</b>
<b>Fund Balances - January 1</b>	<b>16,422,886</b>	<b>3,028,507</b>	<b>3,076,107</b>	<b>1,618,608</b>	<b>2,691,109</b>	<b>26,837,217</b>
<b>Increase (decrease) in reserved for inventories</b>	<u>-</u>	<u>79,422</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,422</u>
<b>Fund Balances - December 31</b>	<u><u>\$ 17,092,830</u></u>	<u><u>\$ 2,028,907</u></u>	<u><u>\$ 3,305,368</u></u>	<u><u>\$ 1,798,655</u></u>	<u><u>\$ 3,154,828</u></u>	<u><u>\$ 27,380,588</u></u>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

**EXHIBIT 6**

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

**Net change in fund balances - total governmental funds** **\$ 463,949**

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 revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable (See Note 1.E.2.). (766,730)

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	\$	6,541,374	
Net book value of assets disposed of		(10,147)	
Current year depreciation		(2,014,252)	4,516,975

Loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.

Loan issued			(290,000)
-------------	--	--	-----------

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

Principal repayments			
General obligation bonds	\$	260,000	
General obligation notes		24,313	
Certificates of participation		90,000	374,313

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. See Note 1.E.2. for details.			61,590

**Change in net assets of governmental activities** **\$ 4,360,097**

**PROPRIETARY FUND**

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**LONG LAKE CONSERVATION CENTER  
ENTERPRISE FUND**

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**AITKIN COUNTY  
AITKIN, MINNESOTA**

**EXHIBIT 7**

**STATEMENT OF NET ASSETS  
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND  
DECEMBER 31, 2006**

**Assets**

Current assets	
Accounts receivable - net	\$ 41,471
Accrued interest receivable	21
Inventories	4,977
<b>Total current assets</b>	<b>\$ 46,469</b>
Restricted assets	
Cash and pooled investments	<b>\$ 2,000</b>
Noncurrent assets	
Capital assets	
Non-depreciable	\$ 35,063
Depreciable - net	3,399,919
<b>Total Assets</b>	<b>\$ 3,483,451</b>

**Liabilities**

Current liabilities	
Accounts payable	\$ 2,797
Salaries payable	30,945
Compensated absences payable - current	1,658
Due to other funds	149,059
<b>Total current liabilities</b>	<b>\$ 184,459</b>
Noncurrent liabilities	
Compensated absences payable - long-term	13,538
<b>Total Liabilities</b>	<b>\$ 197,997</b>

**Net Assets**

Invested in capital assets	\$ 3,434,982
Restricted for	
Other purposes	2,000
Capital projects	3,000
Unrestricted	(154,528)
<b>Total Net Assets</b>	<b>\$ 3,285,454</b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

**EXHIBIT 8**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Operating Revenues</b>	
Program packages	\$ 626,470
Resale	49,951
Miscellaneous	<u>5,783</u>
<b>Total Operating Revenues</b>	<b>\$ <u>682,204</u></b>
<b>Operating Expenses</b>	
Personal services	\$ 521,253
Other services and charges	64,599
Supplies	89,368
Utilities	52,655
Resale	30,087
Depreciation	<u>130,182</u>
<b>Total Operating Expenses</b>	<b>\$ <u>888,144</u></b>
<b>Operating Income (Loss)</b>	<b>\$ <u>(205,940)</u></b>
<b>Nonoperating Revenues (Expenses)</b>	
Intergovernmental	\$ 15,467
Interest income	72
Loss on disposal of asset	<u>(1,000)</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ <u>14,539</u></b>
<b>Income (Loss) Before Transfers</b>	<b>\$ <u>(191,401)</u></b>
Transfers in	<u>12,163</u>
<b>Change in Net Assets</b>	<b>\$ <u>(179,238)</u></b>
<b>Net Assets - January 1</b>	<b><u>3,464,692</u></b>
<b>Net Assets - December 31</b>	<b>\$ <u><u>3,285,454</u></u></b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

**EXHIBIT 9**

**STATEMENT OF CASH FLOWS  
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Cash Flows from Operating Activities</b>	
Cash received from customers	\$ 657,958
Cash paid to suppliers	(238,485)
Cash paid to employees	<u>(520,823)</u>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (101,350)</b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Contributions and donations	\$ 14,523
Intergovernmental	1,888
Interfund	<u>84,880</u>
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>\$ 101,291</b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Interfund	\$ 12,163
Acquisition of capital assets	<u>(12,163)</u>
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>\$ -</b>
<b>Cash Flows from Investing Activities</b>	
Interest	<u>\$ 59</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ -</b>
<b>Cash and Cash Equivalents at January 1</b>	<u><b>2,000</b></u>
<b>Cash and Cash Equivalents at December 31</b>	<u><u><b>\$ 2,000</b></u></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>	
<b>Operating income (loss)</b>	<u><b>\$ (205,940)</b></u>
<b>Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation	\$ 130,182
Changes in assets and liabilities	
Accounts receivable	(24,246)
Inventories	2,557
Accounts payable	(3,273)
Salaries payable	1,150
Due to other governments	(1,060)
Compensated absences	<u>(720)</u>
<b>Total adjustments</b>	<b>\$ 104,590</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u><u><b>\$ (101,350)</b></u></u>

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**FIDUCIARY FUNDS**

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**AITKIN COUNTY  
AITKIN, MINNESOTA**

***EXHIBIT 10***

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2006**

	<u>Agency</u>
<b><u>Assets</u></b>	
Cash and pooled investments	<u>\$ 814,765</u>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 119,021
Due to other governments	<u>695,744</u>
<b>Total Liabilities</b>	<u><b>\$ 814,765</b></u>

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**AITKIN COUNTY  
AITKIN, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2006. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Aitkin County was established May 23, 1857, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Aitkin County (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.

Discretely Presented Component Unit

Although part of the reporting entity, discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. The following component unit of Aitkin County is discretely presented:

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Aitkin Municipal Airport Commission is authorized by Minn. Stat. ch. 360.	The County appoints a majority of the members, and the Airport Commission is a financial burden.	Separate financial statements are not prepared.

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in several joint ventures described in Note 6.B. The County also participates in a jointly-governed organization described in Note 6.C.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government 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 revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net assets, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts: (1) invested in capital assets, 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 and its business-type 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.

**AITKIN COUNTY**  
**AITKIN, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

The County reports the following major enterprise fund:

The Long Lake Conservation Center Enterprise Fund is used to account for the operation of a conservation school primarily for young adults.

**AITKIN COUNTY**  
**AITKIN, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Aitkin County considers all revenues as available if collected within 60 days after the end of the current period, except for reimbursement (expenditure driven) grants for which the period is 90 days. Property and other taxes, shared revenues, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. 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, 2006, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds receive investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2006 were \$1,324,644.

Aitkin 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.

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

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

All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

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

All receivables, including those of the discretely presented component unit, are shown net of an allowance for uncollectibles.

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

4. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories in governmental funds are reported as expenditures when purchased rather than when consumed. Inventories in proprietary funds and at the government-wide level are reported as expenses when consumed.

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

**AITKIN COUNTY**  
**AITKIN, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

5. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the County did not have any capitalized interest.

Property, plant, and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25 - 75
Building improvements	20 - 30
Public domain infrastructure	15 - 75
Furniture, equipment, and vehicles	3 - 15

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

7. Compensated Absences

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

8. Deferred Revenue

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

9. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type 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 effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

10. 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.

11. 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.

E. Reconciliation of Government-Wide and Fund Financial Statements

1. Governmental Fund Balance Sheet and Statement of Net Assets

Exhibit 4 provides a reconciliation between fund balance as reported in the governmental fund balance sheet and net assets--governmental activities as reported in the statement of net assets. One element of that reconciliation is "other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds." The detail of this \$3,852,715 follows.

Included in the long-term assets are receivables for forfeited tax sales. Forfeited tax sales are distributed to the County and certain governments within the County. Receivables not available to pay current expenditures have been deferred. On the government-wide financial statements, the portion of this receivable that will be distributed to the County is reported as revenue, and the amount to be distributed to others is reported as due to other governments.

Deferred revenue	\$ 4,710,763
Due to other governments	<u>(858,048)</u>
Adjustment to Increase Fund Balance to Arrive at Net Assets--Governmental Activities	<u>\$ 3,852,715</u>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Reconciliation of Government-Wide and Fund Financial Statements (Continued)

2. Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and Statement of Activities

Exhibit 6 is a reconciliation between the increase in governmental funds fund balance and the increase in net assets--governmental activities. One element of that increase is “in the funds, under the modified accrual basis, receivables not available for expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues is the increase (decrease) in revenues deferred as unavailable.” The details of the (\$766,730) follow.

Included in deferred revenue are forfeited tax sales receivable that, when received, will be paid to other governments. On the government-wide statements, these are reported as due to other governments.

December 31		
Deferred revenue - unavailable	\$	4,710,763
Less: forfeited tax sales due to other governments		(858,048)
January 1		
Deferred revenue - unavailable		(5,541,947)
Less: forfeited tax sales due to other governments		922,502
		922,502
Adjustment to Revenue	\$	(766,730)

Another element of that reconciliation states that “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.” The details of this \$61,590 are:

Change in compensated absences	\$	(49,331)
Change in accrued interest payable on general long-term debt		14,267
Amortization of deferred debt issuance costs		(3,624)
Amortization of bond premiums		20,856
Change in inventories		79,422
Net Adjustment to Decrease Net Changes in Fund Balance to Arrive at Changes in Net Assets	\$	61,590

**AITKIN COUNTY**  
**AITKIN, MINNESOTA**

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2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Ditch Special Revenue Fund had a deficit fund balance of \$20,914 as of December 31, 2006. This deficit will be eliminated by future special assessment levies against benefited properties.

B. Expenditures in Excess of Budget

For the year ended December 31, 2006, expenditures exceeded appropriations in the General Fund by \$791,658, in the Road and Bridge Special Revenue Fund by \$1,787,421, and in the Jail Bond Debt Service Fund by \$6,256.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 27,930,564
Petty cash and change funds	5,000
Cash with escrow agent	194,103
Cash with fiscal agent	173,645
Business-type activities	
Cash and pooled investments - restricted assets	2,000
Discrete component unit	
Cash and pooled investments	59,170
Statement of fiduciary net assets	
Cash and pooled investments	<u>814,765</u>
Total Cash and Investments	<u>\$ 29,179,247</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

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. It is the County's policy that collateral or bonds will be required for all uninsured amounts on deposit and the additional insurance will be documented to show compliance with state law and a perfected security interest under federal law. As of December 31, 2006, 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;

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

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.

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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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.

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. The County's policy is that brokers may hold County investments only to the extent that there is SIPC and excess SIPC coverage available, with the exception of investments held within the MAGIC Fund. Of the County's investments at December 31, 2006, \$6,946,213 was held by the counterparty, or by its trust department or agent, but not in the County's name.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that U.S. Treasury securities, U.S. agency securities, and obligations backed by U.S. Treasury and/or U.S. agency securities, may be held without limit, and corporate securities may be held up to \$2,000,000 per issuer.

**AITKIN COUNTY  
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's investment balances at December 31, 2006, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
U.S. government agency securities					
Government National Mortgage Association Pool	N/A	N/A		05/15/2021	\$ 5,601
Government National Mortgage Association Pool	N/A	N/A		12/15/2022	2,633
Total Government National Mortgage Association Pool					<u>\$ 8,234</u>
Federal Home Loan Mortgage Corporation Bond					
Federal Home Loan Mortgage Corporation Bond	N/R	N/A		04/01/2017	\$ 682
Federal Home Loan Mortgage Corporation Bond	Aaa	Moody's		01/21/2009	247,495
Federal Home Loan Mortgage Corporation Bond	Aaa	Moody's		02/25/2008	982,130
Federal Home Loan Mortgage Corporation Bond	AAA	Moody's		11/14/2007	1,000,312
Federal Home Loan Mortgage Corporation Bond	AAA	Moody's		11/24/2008	4,976,100
Federal Home Loan Mortgage Corporation Bond	AAA	Moody's		11/03/2008	1,998,124
Federal Home Loan Mortgage Corporation Bond	AAA	Moody's		08/21/2007	967,198
Federal Home Loan Mortgage Corporation Bond	A-1+	S&P		04/20/2007	1,968,482
Federal Home Loan Mortgage Corporation Bond	AAA	S&P			
Total Federal Home Loan Mortgage Corporation			49.9%		<u>\$ 12,140,523</u>
Federal Home Loan Bank Bonds					
Federal Home Loan Bank Bonds	Aaa	Moody's		05/14/2013	\$ 195,502
Federal Home Loan Bank Bonds	AAA	Moody's		05/22/2018	146,972
Federal Home Loan Bank Bonds	AAA	S&P		12/29/2008	1,000,000
Total Federal Home Loan Bank Bonds			5.5%		<u>\$ 1,342,474</u>
First National Mortgage Association Note	A-1+	S&P	16.1%	05/30/2007	<u>\$ 3,914,533</u>
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 5,873,063
Wells Fargo - Advantage Prime Fund	AAA	S&P	N/A	N/A	557,306
First American Treasury Obligations Fund	AAA	S&P	N/A	N/A	194,103
Total investment pools/mutual funds					<u>\$ 6,624,472</u>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
Negotiable certificates of deposit					
Mid Carolina Bank	N/A	N/A	N/A	02/22/2007	\$ 98,906
Countrywide Bank	N/A	N/A	N/A	02/16/2007	98,916
Perpetual First State Bank	N/A	N/A	N/A	08/24/2007	96,000
Total negotiable certificates of deposit					\$ 293,822
Total investments					\$ 24,324,058
Deposits					4,850,189
Petty cash					5,000
Total Cash and Investments					\$ 29,179,247

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

2. Receivables

Receivables, net of uncollectible amounts, as of December 31, 2006, for the County's governmental activities and business-type activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 332,434	\$ -
Special assessments	24,727	23,103
Due from other governments	1,633,544	-
Accounts	3,337,919	-
Interest	129,736	-
Loans	196,105	149,981
Deposits	25,000	25,000
Total Governmental Activities	\$ 5,679,465	\$ 198,084

**AITKIN COUNTY  
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities		
Interest	\$ 21	\$ -
Accounts	41,471	-
Total Business-Type Activities	\$ 41,492	\$ -

An allowance for uncollectible receivables related to timber sales is included in the above figures. The allowance at December 31, 2006, is \$632,039.

3. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,627,761	\$ 512,091	\$ -	\$ 2,139,852
Construction in progress	329,660	148,847	160,699	317,808
Total capital assets not depreciated	\$ 1,957,421	\$ 660,938	\$ 160,699	\$ 2,457,660
Capital assets depreciated				
Buildings	\$ 13,515,581	\$ 944,231	\$ -	\$ 14,459,812
Machinery, furniture, and equipment	7,763,219	1,243,103	1,063,234	7,943,088
Infrastructure	49,932,523	3,853,801	-	53,786,324
Total capital assets depreciated	\$ 71,211,323	\$ 6,041,135	\$ 1,063,234	\$ 76,189,224
Less: accumulated depreciation for				
Buildings	\$ 4,118,587	\$ 365,555	\$ -	\$ 4,484,142
Machinery, furniture, and equipment	5,908,451	586,765	1,053,087	5,442,129
Infrastructure	10,332,649	1,061,932	-	11,394,581
Total accumulated depreciation	\$ 20,359,687	\$ 2,014,252	\$ 1,053,087	\$ 21,320,852
Total capital assets depreciated, net	\$ 50,851,636	\$ 4,026,883	\$ 10,147	\$ 54,868,372
Governmental Activities				
Capital Assets, Net	\$ 52,809,057	\$ 4,687,821	\$ 170,846	\$ 57,326,032

**AITKIN COUNTY  
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 15,400	\$ -	\$ -	\$ 15,400
Construction in progress	8,500	12,163	1,000	19,663
Total capital assets not depreciated	<u>\$ 23,900</u>	<u>\$ 12,163</u>	<u>\$ 1,000</u>	<u>\$ 35,063</u>
Capital assets depreciated				
Buildings	\$ 4,797,417	\$ -	\$ -	\$ 4,797,417
Machinery, furniture, and equipment	146,998	-	-	146,998
Total capital assets depreciated	<u>\$ 4,944,415</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,944,415</u>
Less: accumulated depreciation for				
Buildings	\$ 1,302,524	\$ 122,708	\$ -	\$ 1,425,232
Machinery, furniture, and equipment	111,790	7,474	-	119,264
Total accumulated depreciation	<u>\$ 1,414,314</u>	<u>\$ 130,182</u>	<u>\$ -</u>	<u>\$ 1,544,496</u>
Total capital assets depreciated, net	<u>\$ 3,530,101</u>	<u>\$ (130,182)</u>	<u>\$ -</u>	<u>\$ 3,399,919</u>
Business-Type Activities Capital Assets, Net	<u>\$ 3,554,001</u>	<u>\$ (118,019)</u>	<u>\$ 1,000</u>	<u>\$ 3,434,982</u>

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

Governmental Activities	
General government	\$ 209,386
Public safety	274,289
Highways and streets, including depreciation of infrastructure assets	1,384,804
Human services	29,623
Sanitation	15,140
Culture and recreation	8,110
Conservation of natural resources	92,900
Total Depreciation Expense - Governmental Activities	<u>\$ 2,014,252</u>
Business-Type Activities	
Long Lake Conservation Center	<u>\$ 130,182</u>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Forfeited Tax Sale	\$ 329,064	Forfeited tax sale apportionment Fund deficit cash balance
	Long Lake Conservation Center	<u>149,059</u>	
Total Due to General Fund		<u>\$ 478,123</u>	
Road and Bridge	Nonmajor governmental funds	<u>\$ 30,766</u>	Services provided
Nonmajor governmental funds	General Fund	\$ 9,505	Reimbursement for expenditure Forfeited tax sale apportionment
	Forfeited Tax Sale	<u>387,124</u>	
Total nonmajor governmental funds		<u>\$ 396,629</u>	
Total Due To/From Other Funds		<u>\$ 905,518</u>	

2. Interfund Transfers

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

Transfers to General Fund from Forfeited Tax Sale Fund	\$ 449,109	Forfeited tax sale apportionment and transfer of funds to cover expenditures Reimburse for expenditure
Nonmajor governmental funds	<u>15,679</u>	
Total Transferred to General Fund	<u>\$ 464,788</u>	
Transfers to Road and Bridge Fund from nonmajor governmental funds	<u>\$ 101,681</u>	Provide funds for services
Transfers to Forfeited Tax Sale Fund from General Fund	<u>\$ 2,764</u>	Close negative balance in probate surcharge department

**AITKIN COUNTY  
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

2. Interfund Transfers (Continued)

Transfer to nonmajor governmental funds from Forfeited Tax Sale Fund	\$ 390,105	Forfeited tax sale apportionment and transfer of funds to cover expenditures
Transfer to Long Lake Conservation Center Fund from General Fund	\$ 12,163	Transfer work-in-progress expenditures related to Marcum House Project
Total Interfund Transfers	\$ 971,501	

C. Liabilities

1. Long-Term Debt

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
2005 General Obligation Jail Refunding Bonds	2014	\$260,000 - \$335,000	5.00	\$ 2,920,000	\$ 2,660,000
1999B General Obligation Revenue Notes	2014	\$50,000	0.00	50,000	50,123
2000A Certificates of Participation	2010	\$20,000 - \$115,000	5.00 - 5.90	845,000	420,000
Total General Obligation Bonds				\$ 3,815,000	\$ 3,130,123
1999 Clean Water Partnership Project Notes	2010	\$21,186	0.00	\$ 211,864	\$ 74,153
2000 Clean Water Partnership Project Notes	2013	\$1,806	2.00	32,450	21,914
Total Clean Water Partnership Notes				\$ 244,314	\$ 96,067

**AITKIN COUNTY  
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

1. Long-Term Debt

Governmental Activities (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
1999 Minnesota Department of Agriculture Loans	2019	\$73,930	0.00	\$ 73,930	\$ 73,930
2001 Minnesota Department of Agriculture Loans	2018	\$54,867	0.00	54,867	54,867
Total Minnesota Department of Agriculture Loans				<u>\$ 128,797</u>	<u>\$ 128,797</u>
2006 Minnesota Department of Natural Resources Land Exchange Loan	2011	\$290,000	0.00	<u>\$ 290,000</u>	<u>\$ 290,000</u>

2. Debt Service Requirements

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

Governmental Activities

Year Ending December 31	General Obligation Bonds		General Obligation Revenue Notes		Certificates of Participation	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 290,000	\$ 133,000	\$ -	\$ -	\$ 95,000	\$ 21,783
2008	295,000	118,500	-	-	100,000	16,175
2009	315,000	103,750	-	-	110,000	10,030
2010	330,000	88,000	-	-	115,000	3,393
2011	350,000	71,500	-	-	-	-
2012 - 2016	1,080,000	106,500	50,123	-	-	-
2017 - 2021	-	-	-	-	-	-
Totals	<u>\$ 2,660,000</u>	<u>\$ 621,250</u>	<u>\$ 50,123</u>	<u>\$ -</u>	<u>\$ 420,000</u>	<u>\$ 51,381</u>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Debt Service Requirements

Governmental Activities (Continued)

Year Ending December 31	Clean Water Partnership Project Notes of 1999		Clean Water Partnership Project Notes of 2000		Minnesota Department of Agriculture Loans of 1999	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 21,186	\$ -	\$ 3,190	\$ 422	\$ -	\$ -
2008	21,186	-	3,253	359	-	-
2009	21,186	-	3,319	293	-	-
2010	10,595	-	3,386	226	-	-
2011	-	-	3,454	158	-	-
2012 - 2016	-	-	5,312	107	-	-
2017 - 2021	-	-	-	-	73,930	-
Totals	<u>\$ 74,153</u>	<u>\$ -</u>	<u>\$ 21,914</u>	<u>\$ 1,565</u>	<u>\$ 73,930</u>	<u>\$ -</u>

Year Ending December 31	Minnesota Department of Agriculture Loans of 2001		Minnesota Department of Natural Resources Land Exchange Loan of 2006		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ -	\$ -	\$ -	\$ -	\$ 409,376	\$ 155,205
2008	-	-	-	-	419,439	135,034
2009	-	-	-	-	449,505	114,073
2010	-	-	-	-	458,981	91,619
2011	-	-	290,000	-	643,454	71,658
2012 - 2016	-	-	-	-	1,135,435	106,607
2017 - 2021	54,867	-	-	-	128,797	-
Totals	<u>\$ 54,867</u>	<u>\$ -</u>	<u>\$ 290,000</u>	<u>\$ -</u>	<u>\$ 3,644,987</u>	<u>\$ 674,196</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 2,920,000	\$ -	\$ 260,000	\$ 2,660,000	\$ 290,000
Bond premium	187,706	-	20,856	166,850	-
G.O. revenue notes	50,123	-	-	50,123	-
Certificates of participation	510,000	-	90,000	420,000	95,000
Total bonds payable	\$ 3,667,829	\$ -	\$ 370,856	\$ 3,296,973	\$ 385,000

**AITKIN COUNTY  
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Changes in Long-Term Liabilities

Governmental Activities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Clear Water Partnership Project Notes of 1999	95,339	-	21,186	74,153	21,186
Clear Water Partnership Project Notes of 2000	25,041	-	3,127	21,914	3,190
Minnesota Department of Agriculture Loans of 1999	73,930	-	-	73,930	-
Minnesota Department of Agriculture Loans of 2001	54,867	-	-	54,867	-
Minnesota Department of Natural Resources Land Exchange Loan of 2006	-	290,000	-	290,000	-
Compensated absences	700,034	917,752	868,673	749,113	10,202
Governmental Activities Long-Term Liabilities	<u>\$ 4,617,040</u>	<u>\$ 1,207,752</u>	<u>\$ 1,263,842</u>	<u>\$ 4,560,950</u>	<u>\$ 419,578</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	<u>\$ 15,916</u>	<u>\$ 33,345</u>	<u>\$ 34,065</u>	<u>\$ 15,196</u>	<u>\$ 1,658</u>

4. Employee Retirement Systems and Pension Plans

A. Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution and have direct contact with inmates are covered by the Public Employees Correctional Fund.

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

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

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

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

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AITKIN, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. Public Employees Police and Fire Fund members were required to contribute 7.50 percent of their annual covered salary in 2006. That rate increased to 7.80 percent in 2007. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

	<u>2006</u>	<u>2007</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.00	6.25
Public Employees Police and Fire Fund	10.50	11.70
Public Employees Correctional Fund	8.75	8.75

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

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

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2006	\$ 426,632	\$ 99,325	\$ 84,485
2005	378,449	77,991	71,404
2004	365,059	80,803	66,245

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

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters, for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. 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 \$390,000 per claim in 2006 and \$400,000 per claim in 2007. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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5. 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.

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. Joint Ventures

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 services. Effective January 1, 1992, Aitkin County became a member of the Agency. The governing board is composed of five County Commissioners from each of the participating counties. Crow Wing County maintains the accounting records of the Agency.

The Central Minnesota Community Corrections Agency is funded through state grants and contributions from its member counties. Aitkin County had expenditures of \$131,001 for community corrections to the Agency for 2006.

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Central Minnesota Community Corrections Agency (Continued)

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

Northeast Minnesota Office of Job Training

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

The governing body is composed of seven members, one from the Board of Commissioners of each of the participating counties.

A summary of the financial information of the Northeast Minnesota Office of Job Training’s government-wide statements for June 30, 2006, was:

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

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

Separate financial information can be obtained from:

Northeast Minnesota Office of Job Training  
820 North Ninth Street, Suite 200  
Virginia, Minnesota 55792

Northern Counties Land Use Board

The Northern Counties Land Use Board was established through a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of helping to formulate land use plans for the protection, sustainable use, and development of lands and natural resources.

The joint powers are Aitkin, Cook, Itasca, Koochiching, Lake, Lake of the Woods, Marshall, Pennington, Roseau, and St. Louis Counties. Three elected County Commissioners from St. Louis County and two from each of the other counties make up the membership of the Board. St. Louis County handles all of the financial transactions for this organization through its Northern Counties Land Use Board Agency Fund.

A summary of the government-wide financial statements at December 31, 2004 (most recent available), is shown below:

Total Assets	\$	27,283
Total Liabilities		5,243
Total Net Assets		22,040
Total Revenues		51,250
Total Expenses		42,956
Change in Net Assets		8,294

The County contributed \$2,500 during 2006 to the Northern Counties Land Use Board.

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northern Counties Land Use Board (Continued)

Separate financial information can be obtained from:

Northern Counties Land Use Board  
Room 607  
Government Services Center  
320 West Second Street  
Duluth, Minnesota 55802

Joint County Natural Resources Board

The Joint County Natural Resources Board was formed in 1985 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Aitkin, Beltrami, Clearwater, Koochiching, Lake of the Woods, Mahnomem, Marshall, and Roseau Counties. The purpose of the Natural Resources Board is to gather information on and formulate policies for the development, utilization, and protection of natural resources in this area of Minnesota and to ensure that there is an inter-related plan for the use and protection of both public and private resources.

Control of the Natural Resources Board is vested in the Joint County Natural Resources Board, which is composed of at least one resident of each County appointed by its respective County Board, as provided in the Natural Resources Board's bylaws.

In the event of dissolution of the Joint County Natural Resources Board, the net assets of the Natural Resources Board at that time shall be distributed to the respective member counties in proportion to the contribution of each. Aitkin County provided no funding to this organization during 2006.

The Natural Resources Board has no long-term debt. Financing is provided by appropriations from member counties.

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Joint County Natural Resources Board (Continued)

Complete financial information can be obtained from:

Natural Resources Board  
Wayne Bendickson, Treasurer  
Box 808  
Baudette, Minnesota 56623

Community Health Services Board

Aitkin, Itasca, and Koochiching Counties entered into a joint powers agreement, creating and operating the Aitkin-Itasca Koochiching Community Health Services Board, effective January 1, 1977. This agreement is entered into under the authority of the Community Health Services Act of 1976 and is pursuant to the provisions of Minn. Stat. § 471.59 for the development and maintenance of an integrated system of community health services.

The Community Health Services Board is composed of two members from Aitkin and Koochiching Counties and three members from Itasca County, each appointed by the participating counties. Itasca County maintains the accounting records of the Community Health Services. Funding is obtained through federal, state, local, and private sources. Aitkin County provided no funding to this organization during 2006.

Complete financial information can be obtained from:

Community Health Services  
Itasca County Courthouse  
123 - 4th Street N. E.  
Grand Rapids, Minnesota 55744

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Mississippi Headwaters Board

The Mississippi Headwaters Board was established on February 22, 1980, by Aitkin, Beltrami, Cass, Clearwater, Crow Wing, Hubbard, Itasca, and Morrison Counties, pursuant to the provisions of Minn. Stat. § 471.59. The purpose of the Board is to prepare, adopt, and implement a comprehensive land use plan designed to protect and enhance the Mississippi River and related shoreland areas within the counties.

The Mississippi Headwaters Board consists of eight members, one appointed from each participating county. Cass County maintains the accounting records of the Board. Funding is obtained through federal, state, local, and private sources. Aitkin County provided \$1,500 to this organization during 2006.

Complete financial information can be obtained from:

Mississippi Headwaters Board  
Cass County Courthouse  
4th Street and Minnesota Avenue  
Walker, Minnesota 56484

Snake River Watershed Management Board

The Snake River Watershed Management Board was established in April 1983 by Aitkin, Kanabec, Mille Lacs, and Pine Counties, pursuant to the provisions of Minn. Stat. § 471.59. The purpose of the Board is to coordinate the member counties' water plans and to develop objectives to promote sound hydrologic management of water and related land resources.

The four-member Board consists of one County Commissioner from each of the participating counties. The Kanabec County Auditor is the fiscal agent for the Board. The Board is funded through an annual budget and participation in the administrative cost in the following percentages:

Aitkin County	20.8%
Kanabec County	49.5
Mille Lacs County	9.2
Pine County	20.5

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Snake River Watershed Management Board (Continued)

Aitkin County provided \$10,079 to this organization during 2006. Upon dissolution, the personal property shall be returned to the member county contributing the same.

Complete financial information can be obtained from:

Snake River Watershed Management Board  
Kanabec County Courthouse  
18 North Vine Street  
Mora, Minnesota 55051

Minnesota Counties Information System (MCIS)

Aitkin, Carlton, Cass, Chippewa, Cook, Crow Wing, Dodge, Itasca, Koochiching, Lac qui Parle, Lake, Sherburne, and St. Louis Counties entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of operating and maintaining data processing facilities and management information systems for use by its members.

MCIS is governed by a 13-member Board, composed of a member appointed by each of the participating county's Boards of Commissioners. Financing is obtained through user charges to the member. Cass County is the fiscal agent for MCIS.

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

Separate financial information can be obtained from:

Minnesota Counties Information System  
413 Southeast 7th Avenue  
Grand Rapids, Minnesota 55744

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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

C. Jointly-Governed Organization

Aitkin County Family Services Collaborative

The Aitkin County Family Services Collaborative was established to create opportunities to enhance family strengths and support through service coordination and access to informal communication. Aitkin County has no operational or financial control over the Collaborative. The County is the fiscal agent for the Collaborative and accounts for it in an agency fund.

D. Minnesota Community Capital Fund

The County is a Class A member of the Minnesota Community Capital Fund (MCCF). The MCCF was established to address unmet development financing needs of communities and economic development organizations throughout greater Minnesota by pooling local revolving loan fund resources and providing professional management services to support local efforts. The MCCF is designed to provide its members with greater lending flexibility and the capacity to originate multiple loans that are much larger than would be possible with limited local resources.

E. Tax-Forfeited Land

The County manages approximately 221,611 acres of state-owned, tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs, such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

F. Subsequent Events

The Central Minnesota Community Corrections Agency (CMCC) Board, an Aitkin County joint venture, voted to close the juvenile center portion of CMCC. The County estimates that its share of the closure costs will be approximately \$250,000.

**AITKIN COUNTY  
AITKIN, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

In addition to those identified in Note 1, the Aitkin Municipal Airport Commission, the County's discretely presented component unit, has the following significant accounting policies.

Reporting Entity

The Commission is governed by a five-member Board of Directors--three members appointed by the County Board and two appointed by the City of Aitkin.

Cash and Pooled Investments

All cash of the Commission is on deposit with the Aitkin County Treasurer.

B. Detailed Notes

Capital Assets

Commission capital asset activity for the year ended December 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 75,690	\$ 28,456	\$ -	\$ 104,146
Capital assets depreciated				
Buildings	\$ 195,303	\$ -	\$ -	\$ 195,303
Runways and improvements	1,102,621	6,677	-	1,109,298
Machinery, furniture, and equipment	241,489	-	-	241,489
Total capital assets depreciated	\$ 1,539,413	\$ 6,677	\$ -	\$ 1,546,090
Less: accumulated depreciation for				
Buildings	\$ 71,669	\$ 8,609	\$ -	\$ 80,278
Runways and improvements	711,907	70,367	-	782,274
Machinery, furniture, and equipment	107,268	16,782	-	124,050
Total accumulated depreciation	\$ 890,844	\$ 95,758	\$ -	\$ 986,602
Total capital assets depreciated, net	\$ 648,569	\$ (89,081)	\$ -	\$ 559,488
Total Capital Assets, Net	\$ 724,259	\$ (60,625)	\$ -	\$ 663,634

Depreciation of \$95,758 was charged for 2006.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**AITKIN COUNTY  
AITKIN, MINNESOTA**

**Schedule 1**

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

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Taxes	\$ 6,274,443	\$ 6,274,443	\$ 4,850,679	\$ (1,423,764)
Licenses and permits	100,710	100,710	103,307	2,597
Intergovernmental	1,567,683	1,567,683	3,265,527	1,697,844
Charges for services	1,269,141	1,269,141	1,661,427	392,286
Fines and forfeits	49,400	49,400	48,523	(877)
Gifts and contributions	500	500	500	-
Investment earnings	400,000	400,000	1,324,644	924,644
Miscellaneous	217,038	217,038	257,096	40,058
<b>Total Revenues</b>	<b>\$ 9,878,915</b>	<b>\$ 9,878,915</b>	<b>\$ 11,511,703</b>	<b>\$ 1,632,788</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 217,482	\$ 217,482	\$ 209,603	\$ 7,879
Courts	49,500	49,500	63,595	(14,095)
County administration	308,052	308,052	292,462	15,590
County auditor	498,549	498,549	491,003	7,546
County treasurer	199,845	199,845	191,659	8,186
County assessor	641,072	641,072	676,890	(35,818)
Elections	445,344	445,344	461,240	(15,896)
Data processing	322,069	322,069	311,581	10,488
Central services	180,854	180,854	991,814	(810,960)
Attorney	646,165	646,165	720,212	(74,047)
Recorder	217,361	217,361	207,177	10,184
Planning and zoning	393,800	393,800	363,220	30,580
Buildings and plant	65,000	65,000	77,511	(12,511)
Maintenance	313,577	313,577	313,685	(108)
Veterans service officer	72,100	72,100	71,112	988
Pollution control	32,611	32,611	42,303	(9,692)
Housing and development	1,500	1,500	1,225	275
<b>Total general government</b>	<b>\$ 4,604,881</b>	<b>\$ 4,604,881</b>	<b>\$ 5,486,292</b>	<b>\$ (881,411)</b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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

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

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 1,708,716	\$ 1,708,716	\$ 1,562,525	\$ 146,191
Boat and water safety	69,710	69,710	62,820	6,890
Coroner	39,500	39,500	45,329	(5,829)
Snowmobile	25,529	25,529	25,530	(1)
E-911 system	42,290	42,290	6,866	35,424
Community corrections	2,087,830	2,087,830	2,034,279	53,551
Crime victim	-	-	14	(14)
Civil defense	16,151	16,151	37,798	(21,647)
Juvenile detention	124,500	124,500	79,532	44,968
Juvenile diversion	42,656	42,656	33,617	9,039
Other public safety	50,936	50,936	56,975	(6,039)
<b>Total public safety</b>	<b>\$ 4,207,818</b>	<b>\$ 4,207,818</b>	<b>\$ 3,945,285</b>	<b>\$ 262,533</b>
<b>Sanitation</b>				
Solid waste	\$ 293,470	\$ 293,470	\$ 284,998	\$ 8,472
Environmental health	64,035	64,035	61,524	2,511
<b>Total sanitation</b>	<b>\$ 357,505</b>	<b>\$ 357,505</b>	<b>\$ 346,522</b>	<b>\$ 10,983</b>
<b>Health</b>				
Water wells	\$ 4,500	\$ 4,500	\$ 6,629	\$ (2,129)
<b>Culture and recreation</b>				
Historical society	\$ 15,310	\$ 15,310	\$ 15,135	\$ 175
Parks	466,004	466,004	645,676	(179,672)
Regional library	189,800	189,800	188,198	1,602
Tourism	22,300	22,300	18,646	3,654
<b>Total culture and recreation</b>	<b>\$ 693,414</b>	<b>\$ 693,414</b>	<b>\$ 867,655</b>	<b>\$ (174,241)</b>
<b>Conservation of natural resources</b>				
Cooperative extension	\$ 112,574	\$ 122,892	\$ 125,041	\$ (2,149)
Soil and water conservation	102,499	102,499	99,699	2,800
Agricultural inspections	3,891	3,891	2,973	918
Agricultural society/County fair	14,150	14,150	14,375	(225)
<b>Total conservation of natural resources</b>	<b>\$ 233,114</b>	<b>\$ 243,432</b>	<b>\$ 242,088</b>	<b>\$ 1,344</b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

*Schedule 1*  
*(Continued)*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Economic development</b>				
Community development	\$ 915	\$ 915	\$ 1,148	\$ (233)
Airports	20,596	20,596	20,596	-
Other	66,063	66,063	69,679	(3,616)
<b>Total economic development</b>	<b>\$ 87,574</b>	<b>\$ 87,574</b>	<b>\$ 91,423</b>	<b>\$ (3,849)</b>
<b>Intergovernmental</b>				
<b>Public safety</b>				
Central Minnesota Community Corrections	\$ 185,838	\$ 185,838	\$ 163,918	\$ 21,920
<b>Debt service</b>				
Principal	\$ 75,000	\$ 75,000	\$ 114,313	\$ (39,313)
Interest	\$ 40,000	\$ 40,000	\$ 27,495	\$ 12,505
<b>Total Expenditures</b>	<b>\$ 10,489,644</b>	<b>\$ 10,499,962</b>	<b>\$ 11,291,620</b>	<b>\$ (791,658)</b>
<b>Excess of Revenues Over (Under)   Expenditures</b>	<b>\$ (610,729)</b>	<b>\$ (621,047)</b>	<b>\$ 220,083</b>	<b>\$ 841,130</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 425,000	\$ 425,000	\$ 464,788	\$ 39,788
Transfers out	-	-	(14,927)	(14,927)
<b>Total Other Financing Sources     (Uses)</b>	<b>\$ 425,000</b>	<b>\$ 425,000</b>	<b>\$ 449,861</b>	<b>\$ 24,861</b>
<b>Net Change in Fund Balance</b>	<b>\$ (185,729)</b>	<b>\$ (196,047)</b>	<b>\$ 669,944</b>	<b>\$ 865,991</b>
<b>Fund Balance - January 1</b>	<b>16,422,886</b>	<b>16,422,886</b>	<b>16,422,886</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 16,237,157</b>	<b>\$ 16,226,839</b>	<b>\$ 17,092,830</b>	<b>\$ 865,991</b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

*Schedule 2*

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,644,312	\$ 1,644,312	\$ 1,279,946	\$ (364,366)
Intergovernmental	4,399,400	4,399,400	5,671,685	1,272,285
Charges for services	239,000	239,000	269,532	30,532
Miscellaneous	40,000	40,000	14,867	(25,133)
<b>Total Revenues</b>	<b>\$ 6,322,712</b>	<b>\$ 6,322,712</b>	<b>\$ 7,236,030</b>	<b>\$ 913,318</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 392,341	\$ 392,341	\$ 373,521	\$ 18,820
Engineering	380,493	380,493	334,011	46,482
Maintenance	2,031,378	2,031,378	2,242,723	(211,345)
Construction	3,825,100	3,825,100	5,466,478	(1,641,378)
<b>Total Expenditures</b>	<b>\$ 6,629,312</b>	<b>\$ 6,629,312</b>	<b>\$ 8,416,733</b>	<b>\$ (1,787,421)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (306,600)</b>	<b>\$ (306,600)</b>	<b>\$ (1,180,703)</b>	<b>\$ (874,103)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	101,681	101,681
<b>Net Change in Fund Balance</b>	<b>\$ (306,600)</b>	<b>\$ (306,600)</b>	<b>\$ (1,079,022)</b>	<b>\$ (772,422)</b>
<b>Fund Balance - January 1</b>	<b>3,028,507</b>	<b>3,028,507</b>	<b>3,028,507</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>79,422</b>	<b>79,422</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,721,907</b>	<b>\$ 2,721,907</b>	<b>\$ 2,028,907</b>	<b>\$ (693,000)</b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
HEALTH AND HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 2,373,771	\$ 2,373,771	\$ 1,847,926	\$ (525,845)
Intergovernmental	3,132,451	3,132,451	3,395,836	263,385
Charges for services	20,650	20,650	20,837	187
Miscellaneous	323,861	323,861	462,008	138,147
<b>Total Revenues</b>	<b>\$ 5,850,733</b>	<b>\$ 5,850,733</b>	<b>\$ 5,726,607</b>	<b>\$ (124,126)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,227,831	\$ 1,227,831	\$ 1,285,885	\$ (58,054)
Social services	4,078,537	4,078,537	3,673,811	404,726
<b>Total human services</b>	<b>\$ 5,306,368</b>	<b>\$ 5,306,368</b>	<b>\$ 4,959,696</b>	<b>\$ 346,672</b>
<b>Health</b>				
Nursing service	\$ 19,085	\$ 19,085	\$ 19,908	\$ (823)
Transportation	52,000	52,000	50,180	1,820
Maternal and child health	29,690	29,690	24,445	5,245
Miscellaneous	455,931	455,931	443,117	12,814
<b>Total health</b>	<b>\$ 556,706</b>	<b>\$ 556,706</b>	<b>\$ 537,650</b>	<b>\$ 19,056</b>
<b>Total Expenditures</b>	<b>\$ 5,863,074</b>	<b>\$ 5,863,074</b>	<b>\$ 5,497,346</b>	<b>\$ 365,728</b>
<b>Net Change in Fund Balance</b>	<b>\$ (12,341)</b>	<b>\$ (12,341)</b>	<b>\$ 229,261</b>	<b>\$ 241,602</b>
<b>Fund Balance - January 1</b>	<b>3,076,107</b>	<b>3,076,107</b>	<b>3,076,107</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,063,766</b>	<b>\$ 3,063,766</b>	<b>\$ 3,305,368</b>	<b>\$ 241,602</b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

*Schedule 4*

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 186,000	\$ 186,000	\$ 238,954	\$ 52,954
Charges for services	30,000	30,000	32,711	2,711
Miscellaneous	1,810,400	1,810,400	1,860,970	50,570
<b>Total Revenues</b>	<b>\$ 2,026,400</b>	<b>\$ 2,026,400</b>	<b>\$ 2,132,635</b>	<b>\$ 106,235</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Insurance	\$ 100,000	\$ 100,000	\$ -	\$ 100,000
Law library	30,000	30,000	52,606	(22,606)
Lifeline subsidy	500	500	819	(319)
Other	-	-	2,110	(2,110)
<b>Total general government</b>	<b>\$ 130,500</b>	<b>\$ 130,500</b>	<b>\$ 55,535</b>	<b>\$ 74,965</b>
<b>Conservation of natural resources</b>				
County development	\$ 139,208	\$ 139,208	\$ 92,091	\$ 47,117
Consolidated conservation	150	150	1,169	(1,019)
Forfeited tax	873,554	873,554	967,343	(93,789)
Other	50	50	-	50
<b>Total conservation of natural resources</b>	<b>\$ 1,012,962</b>	<b>\$ 1,012,962</b>	<b>\$ 1,060,603</b>	<b>\$ (47,641)</b>
<b>Total Expenditures</b>	<b>\$ 1,143,462</b>	<b>\$ 1,143,462</b>	<b>\$ 1,116,138</b>	<b>\$ 27,324</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 882,938</b>	<b>\$ 882,938</b>	<b>\$ 1,016,497</b>	<b>\$ 133,559</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ -	\$ 2,764	\$ 2,764
Transfers out	(831,446)	(831,446)	(839,214)	(7,768)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (831,446)</b>	<b>\$ (831,446)</b>	<b>\$ (836,450)</b>	<b>\$ (5,004)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 51,492</b>	<b>\$ 51,492</b>	<b>\$ 180,047</b>	<b>\$ 128,555</b>
<b>Fund Balance - January 1</b>	<b>1,618,608</b>	<b>1,618,608</b>	<b>1,618,608</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,670,100</b>	<b>\$ 1,670,100</b>	<b>\$ 1,798,655</b>	<b>\$ 128,555</b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

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

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1. Budgetary Information

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

By July of each year, all departments submit requests for appropriations to the County Administrator so that a budget can be prepared. Before September 30, the proposed budget is presented to the County Board for review. A final budget is adopted by the Board and certified to the Auditor no later than December 31.

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

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2006, expenditures exceeded appropriations in the General Fund by \$791,658 and the Road and Bridge Special Revenue Fund by \$1,787,421. The General Fund overexpenditures were funded by greater than anticipated revenues. The Road and Bridge Special Revenue Fund overexpenditures were funded by greater than anticipated revenues and the use of fund balance.

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**SUPPLEMENTARY INFORMATION**

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**AITKIN COUNTY  
AITKIN, MINNESOTA**

**NONMAJOR GOVERNMENTAL FUNDS**

The Forest Development Special Revenue Fund is used to account for funds used in developing forests in the County. Financing is provided by forfeited tax settlements, grants, and payments in lieu of taxes.

The Unorganized Road, Bridge, and Fire Special Revenue Fund is used to account for funds used to provide road maintenance and fire protection for unorganized townships.

The Ditch Special Revenue Fund is used to account for funds used for public improvements and services for the ditch system.

The Land Exchange Revolving Loan Special Revenue Fund is used to account for revolving loan funds provided by 2006 Minn. Law ch. 243, sec. 20.

The Jail Bond Debt Service Fund is used to account for the accumulation of resources for the payment of principal, interest, and related costs for the 2005 General Obligation Jail Refunding Bonds.

The Environmental Permanent Fund is used to account for funds collected from the sale of County-owned lakeshore leased lots. In accordance with 1998 Minn. Laws ch. 389, art. 16, § 31, the principal on these sales must remain in an environmental trust, and the interest may be spent only on improvement of natural resources.

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**AITKIN COUNTY  
AITKIN, MINNESOTA**

**Statement 1**

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

	<b>Special Revenue</b>	<b>Jail Bond Debt Service</b>	<b>Environmental Permanent</b>	<b>Total</b>
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 2,180,137	\$ 123,471	\$ 489,608	\$ 2,793,216
Taxes receivable				
Prior	2,638	14,044	-	16,682
Special assessments receivable				
Prior	1,826	-	-	1,826
Noncurrent	22,901	-	-	22,901
Accounts receivable	6,743	-	7,007	13,750
Due from other funds	387,124	9,505	-	396,629
<b>Total Assets</b>	<b>\$ 2,601,369</b>	<b>\$ 147,020</b>	<b>\$ 496,615</b>	<b>\$ 3,245,004</b>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 1,489	\$ -	\$ 129	\$ 1,618
Salaries payable	6,215	-	-	6,215
Due to other funds	30,766	-	-	30,766
Deferred revenue - unavailable	33,493	10,856	7,007	51,356
Compensated absences payable	221	-	-	221
<b>Total Liabilities</b>	<b>\$ 72,184</b>	<b>\$ 10,856</b>	<b>\$ 7,136</b>	<b>\$ 90,176</b>
<b>Fund Balances</b>				
Reserved for environmental purposes	\$ -	\$ -	\$ 489,479	\$ 489,479
Unreserved				
Designated for debt service	-	136,164	-	136,164
Undesignated	2,529,185	-	-	2,529,185
<b>Total Fund Balances</b>	<b>\$ 2,529,185</b>	<b>\$ 136,164</b>	<b>\$ 489,479</b>	<b>\$ 3,154,828</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,601,369</b>	<b>\$ 147,020</b>	<b>\$ 496,615</b>	<b>\$ 3,245,004</b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

*Statement 2*

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

	<u>Special Revenue</u>	<u>Jail Bond Debt Service</u>	<u>Environmental Permanent</u>	<u>Total</u>
<b>Revenues</b>				
Taxes	\$ 78,975	\$ 340,484	\$ -	\$ 419,459
Special assessments	1,624	-	-	1,624
Licenses and permits	5,675	-	-	5,675
Intergovernmental	184,952	98,006	-	282,958
Investment earnings	1,868	-	23,851	25,719
Miscellaneous	22,808	-	15,562	38,370
<b>Total Revenues</b>	<b>\$ 295,902</b>	<b>\$ 438,490</b>	<b>\$ 39,413</b>	<b>\$ 773,805</b>
<b>Expenditures</b>				
<b>Current</b>				
General government	\$ 1,295	\$ -	\$ -	\$ 1,295
Public safety	15,979	-	-	15,979
Highways and streets	2,400	-	-	2,400
Conservation of natural resources	434,790	-	-	434,790
<b>Debt service</b>				
Principal	-	260,000	-	260,000
Interest	-	158,167	-	158,167
Administrative charges	-	200	-	200
<b>Total Expenditures</b>	<b>\$ 454,464</b>	<b>\$ 418,367</b>	<b>\$ -</b>	<b>\$ 872,831</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (158,562)</b>	<b>\$ 20,123</b>	<b>\$ 39,413</b>	<b>\$ (99,026)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 390,105	\$ -	\$ -	\$ 390,105
Transfers out	(101,681)	-	(15,679)	(117,360)
Loans issued	290,000	-	-	290,000
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 578,424</b>	<b>\$ -</b>	<b>\$ (15,679)</b>	<b>\$ 562,745</b>
<b>Net Change in Fund Balance</b>	<b>\$ 419,862</b>	<b>\$ 20,123</b>	<b>\$ 23,734</b>	<b>\$ 463,719</b>
<b>Fund Balance - January 1</b>	<b>2,109,323</b>	<b>116,041</b>	<b>465,745</b>	<b>2,691,109</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,529,185</b>	<b>\$ 136,164</b>	<b>\$ 489,479</b>	<b>\$ 3,154,828</b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

*Statement 3*

**COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
DECEMBER 31, 2006**

	<b>Forest Development</b>	<b>Unorganized Road, Bridge, and Fire</b>	<b>Ditch</b>	<b>Land Exchange Revolving Loan</b>	<b>Total</b>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 1,462,980	\$ 417,284	\$ 9,757	\$ 290,116	\$ 2,180,137
Prior	-	2,638	-	-	2,638
Special assessments receivable					
Prior	-	-	1,826	-	1,826
Noncurrent	-	-	22,901	-	22,901
Accounts receivable	6,743	-	-	-	6,743
Due from other funds	367,386	19,738	-	-	387,124
	<u>367,386</u>	<u>19,738</u>	<u>-</u>	<u>-</u>	<u>387,124</u>
<b>Total Assets</b>	<b><u>\$ 1,837,109</u></b>	<b><u>\$ 439,660</u></b>	<b><u>\$ 34,484</u></b>	<b><u>\$ 290,116</u></b>	<b><u>\$ 2,601,369</u></b>
<b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 1,289	\$ -	\$ 200	\$ -	\$ 1,489
Salaries payable	6,215	-	-	-	6,215
Due to other funds	-	295	30,471	-	30,766
Deferred revenue - unavailable	6,743	2,023	24,727	-	33,493
Compensated absences payable	221	-	-	-	221
	<u>221</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>221</u>
<b>Total Liabilities</b>	<b><u>\$ 14,468</u></b>	<b><u>\$ 2,318</u></b>	<b><u>\$ 55,398</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 72,184</u></b>
<b>Fund Balances</b>					
Unreserved					
Undesignated	1,822,641	437,342	(20,914)	290,116	2,529,185
	<u>1,822,641</u>	<u>437,342</u>	<u>(20,914)</u>	<u>290,116</u>	<u>2,529,185</u>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 1,837,109</u></b>	<b><u>\$ 439,660</u></b>	<b><u>\$ 34,484</u></b>	<b><u>\$ 290,116</u></b>	<b><u>\$ 2,601,369</u></b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

*Statement 4*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Forest Development	Unorganized Road, Bridge, and Fire	Ditch	Land Exchange Revolving Loan	Total
<b>Revenues</b>					
Taxes	\$ -	\$ 78,975	\$ -	\$ -	\$ 78,975
Special assessments	-	-	1,624	-	1,624
Licenses and permits	5,675	-	-	-	5,675
Intergovernmental	160,208	24,744	-	-	184,952
Investment earnings	-	-	1,748	120	1,868
Miscellaneous	22,788	20	-	-	22,808
<b>Total Revenues</b>	<b>\$ 188,671</b>	<b>\$ 103,739</b>	<b>\$ 3,372</b>	<b>\$ 120</b>	<b>\$ 295,902</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ -	\$ 1,295	\$ -	\$ -	\$ 1,295
Public safety	-	15,979	-	-	15,979
Highways and streets	-	-	2,400	-	2,400
Conservation of natural resources	434,786	-	-	4	434,790
<b>Total Expenditures</b>	<b>\$ 434,786</b>	<b>\$ 17,274</b>	<b>\$ 2,400</b>	<b>\$ 4</b>	<b>\$ 454,464</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (246,115)</b>	<b>\$ 86,465</b>	<b>\$ 972</b>	<b>\$ 116</b>	<b>\$ (158,562)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$ 370,367	\$ 19,738	\$ -	\$ -	\$ 390,105
Transfers out	-	(100,271)	(1,410)	-	(101,681)
Loan issued	-	-	-	290,000	290,000
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 370,367</b>	<b>\$ (80,533)</b>	<b>\$ (1,410)</b>	<b>\$ 290,000</b>	<b>\$ 578,424</b>
<b>Net Change in Fund Balance</b>	<b>\$ 124,252</b>	<b>\$ 5,932</b>	<b>\$ (438)</b>	<b>\$ 290,116</b>	<b>\$ 419,862</b>
<b>Fund Balance - January 1</b>	<b>1,698,389</b>	<b>431,410</b>	<b>(20,476)</b>	<b>-</b>	<b>2,109,323</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,822,641</b>	<b>\$ 437,342</b>	<b>\$ (20,914)</b>	<b>\$ 290,116</b>	<b>\$ 2,529,185</b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

*Schedule 5*

**BUDGETARY COMPARISON SCHEDULE  
FOREST DEVELOPMENT SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Licenses and permits	\$ 4,000	\$ 4,000	\$ 5,675	\$ 1,675
Intergovernmental	143,500	143,500	160,208	16,708
Miscellaneous	12,550	12,550	22,788	10,238
<b>Total Revenues</b>	<b>\$ 160,050</b>	<b>\$ 160,050</b>	<b>\$ 188,671</b>	<b>\$ 28,621</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Forest resource	\$ 127,188	\$ 127,188	\$ 133,938	\$ (6,750)
Reforestation	321,826	321,826	170,052	151,774
Memorial forest	102,700	102,700	87,083	15,617
Forest road	46,242	46,242	43,713	2,529
Gravel pit	6,000	6,000	-	6,000
<b>Total Expenditures</b>	<b>\$ 603,956</b>	<b>\$ 603,956</b>	<b>\$ 434,786</b>	<b>\$ 169,170</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (443,906)</b>	<b>\$ (443,906)</b>	<b>\$ (246,115)</b>	<b>\$ 197,791</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	420,000	420,000	370,367	(49,633)
<b>Net Change in Fund Balance</b>	<b>\$ (23,906)</b>	<b>\$ (23,906)</b>	<b>\$ 124,252</b>	<b>\$ 148,158</b>
<b>Fund Balance - January 1</b>	<b>1,698,389</b>	<b>1,698,389</b>	<b>1,698,389</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,674,483</b>	<b>\$ 1,674,483</b>	<b>\$ 1,822,641</b>	<b>\$ 148,158</b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

**Schedule 6**

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 67,265	\$ 67,265	\$ 78,975	\$ 11,710
Intergovernmental	-	-	24,744	24,744
Miscellaneous	-	-	20	20
<b>Total Revenues</b>	<b>\$ 67,265</b>	<b>\$ 67,265</b>	<b>\$ 103,739</b>	<b>\$ 36,474</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Other general government	\$ 1,240	\$ 1,240	\$ 1,295	\$ (55)
<b>Public safety</b>				
Emergency services	17,275	17,275	15,979	1,296
<b>Total Expenditures</b>	<b>\$ 18,515</b>	<b>\$ 18,515</b>	<b>\$ 17,274</b>	<b>\$ 1,241</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 48,750</b>	<b>\$ 48,750</b>	<b>\$ 86,465</b>	<b>\$ 37,715</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ -	\$ 19,738	\$ 19,738
Transfers out	(48,750)	(48,750)	(100,271)	(51,521)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (48,750)</b>	<b>\$ (48,750)</b>	<b>\$ (80,533)</b>	<b>\$ (31,783)</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,932</b>	<b>\$ 5,932</b>
<b>Fund Balance - January 1</b>	<b>431,410</b>	<b>431,410</b>	<b>431,410</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 431,410</b>	<b>\$ 431,410</b>	<b>\$ 437,342</b>	<b>\$ 5,932</b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

*Schedule 7*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Special assessments	\$ -	\$ -	\$ 1,624	\$ 1,624
Investment earnings	1,580	1,580	1,748	168
<b>Total Revenues</b>	<b>\$ 1,580</b>	<b>\$ 1,580</b>	<b>\$ 3,372</b>	<b>\$ 1,792</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Other highways and streets	4,488	4,488	2,400	2,088
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (2,908)</b>	<b>\$ (2,908)</b>	<b>\$ 972</b>	<b>\$ 3,880</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(1,410)	(1,410)
<b>Net Change in Fund Balance</b>	<b>\$ (2,908)</b>	<b>\$ (2,908)</b>	<b>\$ (438)</b>	<b>\$ 2,470</b>
<b>Fund Balance - January 1</b>	<b>(20,476)</b>	<b>(20,476)</b>	<b>(20,476)</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ (23,384)</b>	<b>\$ (23,384)</b>	<b>\$ (20,914)</b>	<b>\$ 2,470</b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

*Schedule 8*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 437,081	\$ 437,081	\$ 340,484	\$ (96,597)
Intergovernmental	-	-	98,006	98,006
<b>Total Revenues</b>	<b>\$ 437,081</b>	<b>\$ 437,081</b>	<b>\$ 438,490</b>	<b>\$ 1,409</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 275,000	\$ 275,000	\$ 260,000	\$ 15,000
Interest	137,111	137,111	158,167	(21,056)
Administrative charges	-	-	200	(200)
<b>Total Expenditures</b>	<b>\$ 412,111</b>	<b>\$ 412,111</b>	<b>\$ 418,367</b>	<b>\$ (6,256)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 24,970</b>	<b>\$ 24,970</b>	<b>\$ 20,123</b>	<b>\$ (4,847)</b>
<b>Fund Balance - January 1</b>	<b>116,041</b>	<b>116,041</b>	<b>116,041</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 141,011</b>	<b>\$ 141,011</b>	<b>\$ 136,164</b>	<b>\$ (4,847)</b>

**FIDUCIARY FUNDS**

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**AIKTIN COUNTY  
AITKIN, MINNESOTA**

*Statement 5*

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

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>AGENCY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 452,872	\$ 7,860,686	\$ 7,775,391	\$ 538,167
<b><u>Liabilities</u></b>				
Due to other governments	\$ 452,872	\$ 7,860,686	\$ 7,775,391	\$ 538,167
 <b><u>COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 150,429	\$ 115,306	\$ 146,714	\$ 119,021
<b><u>Liabilities</u></b>				
Accounts payable	\$ 150,429	\$ 115,306	\$ 146,714	\$ 119,021
 <b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 167,958	\$ 3,022,491	\$ 3,038,244	\$ 152,205
<b><u>Liabilities</u></b>				
Due to other governments	\$ 167,958	\$ 3,022,491	\$ 3,038,244	\$ 152,205

**AIKTIN COUNTY  
AITKIN, MINNESOTA**

*Statement 5  
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 20,799,972	\$ 20,794,600	\$ 5,372
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 20,799,972	\$ 20,794,600	\$ 5,372
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 771,259	\$ 31,798,455	\$ 31,754,949	\$ 814,765
<b><u>Liabilities</u></b>				
Accounts payable	\$ 150,429	\$ 115,306	\$ 146,714	\$ 119,021
Due to other governments	620,830	31,683,149	31,608,235	695,744
<b>Total Liabilities</b>	<b>\$ 771,259</b>	<b>\$ 31,798,455</b>	<b>\$ 31,754,949</b>	<b>\$ 814,765</b>

## **COMPONENT UNIT**

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**AITKIN MUNICIPAL AIRPORT COMMISSION**

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**AITKIN COUNTY  
AITKIN, MINNESOTA**

*Statement 6*

**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET  
COMPONENT UNIT  
AITKIN MUNICIPAL AIRPORT COMMISSION  
DECEMBER 31, 2006**

	<b>General Fund</b>	<b>Adjustments (See Below)</b>	<b>Statement of Net Assets</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 59,170	\$ -	\$ 59,170
Capital assets			
Non-depreciable	-	104,146	104,146
Depreciable - net	-	559,488	559,488
	<u>\$ 59,170</u>	<u>\$ 663,634</u>	<u>\$ 722,804</u>
<b><u>Fund Balance/Net Assets</u></b>			
Fund Balance			
Unreserved			
Undesignated	<u>\$ 59,170</u>	<u>\$ (59,170)</u>	
Net Assets			
Invested in capital assets		\$ 663,634	\$ 663,634
Unrestricted		59,170	59,170
<b>Total Net Assets</b>		<b>\$ 722,804</b>	<b>\$ 722,804</b>
<b><u>Reconciliation of the General Fund Balance to Net Assets</u></b>			
General Fund Balance			\$ 59,170
Capital assets are reported on the Statement of Net Assets but not on the General Fund Balance Sheet.			663,634
<b>Net Assets</b>			<b>\$ 722,804</b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

*Statement 7*

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE  
COMPONENT UNIT  
AITKIN MUNICIPAL AIRPORT COMMISSION  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>General Fund</u>	<u>Adjustments (See Below)</u>	<u>Statement of Activities</u>
<b>Revenues</b>			
Intergovernmental	\$ 35,133	\$ -	\$ 35,133
Charges for services	16,394	-	16,394
Investment earnings	296	-	296
<b>Total Revenues</b>	<b>\$ 51,823</b>	<b>\$ -</b>	<b>\$ 51,823</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
Economic development	\$ 25,295	\$ 95,758	\$ 121,053
<b>Capital outlay</b>	<b>35,133</b>	<b>(35,133)</b>	<b>-</b>
<b>Total Expenditures/Expenses</b>	<b>\$ 60,428</b>	<b>\$ 60,625</b>	<b>\$ 121,053</b>
<b>Net Change in Fund Balance/Net Assets</b>	<b>\$ (8,605)</b>	<b>\$ (60,625)</b>	<b>\$ (69,230)</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>67,775</b>	<b>724,259</b>	<b>792,034</b>
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ 59,170</b>	<b>\$ 663,634</b>	<b>\$ 722,804</b>

**Reconciliation of the Change in Fund Balance to the Change in Net Assets**

**Net Change in Fund Balance** **\$ (8,605)**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the assets' estimated useful lives and reported as depreciation expense.

Capital outlay	35,133
Depreciation expense	<u>(95,758)</u>

**Change in Net Assets** **\$ (69,230)**

## **OTHER SCHEDULES**

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**AITKIN COUNTY  
AITKIN, MINNESOTA**

*Schedule 9*

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

	Primary Government			Component Unit
	Governmental Funds	Enterprise Funds	Total	
<b>Shared Revenue</b>				
<b>State</b>				
Highway users tax	\$ 4,482,550	\$ -	\$ 4,482,550	\$ -
Program aid	793,413	-	793,413	-
PERA rate reimbursement	28,165	1,888	30,053	-
Disparity reduction aid	10,628	-	10,628	-
Police aid	78,921	-	78,921	-
Taconite credit	574,168	-	574,168	-
Enhanced 911	89,491	-	89,491	-
Market value credit	945,221	-	945,221	-
<b>Total Shared Revenue</b>	<b>\$ 7,002,557</b>	<b>\$ 1,888</b>	<b>\$ 7,004,445</b>	<b>\$ -</b>
<b>Reimbursement for Services</b>				
Minnesota Department of Human Services	\$ 1,507,341	\$ -	\$ 1,507,341	\$ -
<b>Payments</b>				
Local contributions	\$ -	\$ 13,579	\$ 13,579	\$ 1,757
State - payments in lieu of taxes	990,364	-	990,364	-
<b>Total Payments</b>	<b>\$ 990,364</b>	<b>\$ 13,579</b>	<b>\$ 1,003,943</b>	<b>\$ 1,757</b>
<b>Grants</b>				
<b>State</b>				
Minnesota Department of Public Safety	\$ 42,401	\$ -	\$ 42,401	\$ -
Health	128,305	-	128,305	-
Natural Resources	483,063	-	483,063	-
Human Services	789,485	-	789,485	-
Water and Soil Resources Board	31,223	-	31,223	-
Office of Environmental Assistance	49,079	-	49,079	-
<b>Total State</b>	<b>\$ 1,523,556</b>	<b>\$ -</b>	<b>\$ 1,523,556</b>	<b>\$ -</b>
<b>Federal</b>				
Department of Agriculture	\$ 49,436	\$ -	\$ 49,436	\$ -
Transportation	862,547	-	862,547	33,376
Health and Human Services	495,814	-	495,814	-
Homeland Security	42,138	-	42,138	-
Election Assistance Commission	381,207	-	381,207	-
<b>Total Federal</b>	<b>\$ 1,831,142</b>	<b>\$ -</b>	<b>\$ 1,831,142</b>	<b>\$ 33,376</b>
<b>Total State and Federal Grants</b>	<b>\$ 3,354,698</b>	<b>\$ -</b>	<b>\$ 3,354,698</b>	<b>\$ 33,376</b>
<b>Total Intergovernmental Revenue</b>	<b>\$ 12,854,960</b>	<b>\$ 15,467</b>	<b>\$ 12,870,427</b>	<b>\$ 35,133</b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

**BALANCE SHEET - BY DITCH  
DITCH SPECIAL REVENUE FUND  
DECEMBER 31, 2006**

	Assets			Total
	Cash	Special Assessments Receivable	Due from Other Ditches	
<b>County Ditches</b>				
2	\$ -	\$ -	\$ -	\$ -
5	(11,140)	-	-	(11,140)
13	-	-	-	-
14	-	-	-	-
20	(747)	-	-	(747)
21	(421)	-	-	(421)
23	(443)	-	-	(443)
24	(15,858)	369	1,500	(13,989)
25	(240)	-	-	(240)
28	(2,144)	-	-	(2,144)
29	-	-	-	-
30	26,716	1,294	11,861	39,871
34	961	978	-	1,939
36	2,755	1,208	-	3,963
37	(2,463)	8,425	-	5,962
42	(1,518)	-	-	(1,518)
43	(76)	-	-	(76)
58	(130)	-	-	(130)
63	864	12,290	-	13,154
66	2,220	-	-	2,220
88	-	-	-	-
<b>Judicial Ditch</b>				
2	11,421	163	-	11,584
<b>Total</b>	<b>\$ 9,757</b>	<b>\$ 24,727</b>	<b>\$ 13,361</b>	<b>\$ 47,845</b>

**Schedule 10**

<u>Accounts Payable</u>	<u>Due to Other Funds</u>	<u>Liabilities Deferred Revenue</u>	<u>Due to Other Ditches</u>	<u>Total</u>	<u>Fund Balance</u>	<u>Total Liabilities and Fund Balance</u>
\$ -	\$ 1,160	\$ -	\$ -	\$ 1,160	\$ (1,160)	\$ -
-	3,654	-	7,250	10,904	(22,044)	(11,140)
-	1,443	-	-	1,443	(1,443)	-
-	317	-	-	317	(317)	-
-	-	-	-	-	(747)	(747)
-	756	-	-	756	(1,177)	(421)
-	241	-	-	241	(684)	(443)
200	120	369	-	689	(14,678)	(13,989)
-	-	-	-	-	(240)	(240)
-	7,859	-	1,287	9,146	(11,290)	(2,144)
-	265	-	-	265	(265)	-
-	-	1,294	-	1,294	38,577	39,871
-	-	978	65	1,043	896	1,939
-	-	1,208	65	1,273	2,690	3,963
-	564	8,425	2,173	11,162	(5,200)	5,962
-	1,202	-	935	2,137	(3,655)	(1,518)
-	149	-	76	225	(301)	(76)
-	-	-	-	-	(130)	(130)
-	12,377	12,290	-	24,667	(11,513)	13,154
-	-	-	1,510	1,510	710	2,220
-	364	-	-	364	(364)	-
-	-	163	-	163	11,421	11,584
<b><u>\$ 200</u></b>	<b><u>\$ 30,471</u></b>	<b><u>\$ 24,727</u></b>	<b><u>\$ 13,361</u></b>	<b><u>\$ 68,759</u></b>	<b><u>\$ (20,914)</u></b>	<b><u>\$ 47,845</u></b>

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**AITKIN COUNTY  
AITKIN, MINNESOTA**

**Schedule 11**

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

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

- A. Our report expresses unqualified opinions on the basic financial statements of Aitkin County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Aitkin 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 Aitkin County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Aitkin County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Highway Planning and Construction	CFDA #20.205
Help America Vote Act Grant	CFDA #90.401
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Aitkin 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 ITEM NOT RESOLVED

96-5 Departmental Internal Accounting Controls

Due to the limited number of office personnel within the various County departments, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible.

Although this is not unusual in small departmental situations, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

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

Client's Response:

*County management is aware of this situation; however, the County lacks the resources to staff departments to levels needed to provide segregation of functions. County management will review internal controls and transactions.*

ITEMS ARISING THIS YEAR

06-1 Segregation of Duties Within the Auditor and Treasurer Offices

One basic objective of internal control is to provide for segregation of incompatible duties. In other words, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction. The following duties should be segregated if possible:

- Someone independent of the cash collection and receipting function and the cash disbursement function should prepare bank reconciliations. If this is not possible, someone independent of these functions should review the bank reconciliations.
  
- Individuals who collect and receipt cash should not also:
  - post cash receipts to the general ledger system,
  - process cash disbursements,
  - maintain the general ledger,
  - make bank deposits,
  - make wire transfers,
  - make general journal entries, or
  - prepare billings.
  
- Individuals who process vouchers for payments should not also:
  - print or sign checks or
  - make journal entries.

The County Treasurer does not segregate the duties of cash collection and receipting from the bank reconciliation process. Also, the person in the County Auditor's Office who processes cash disbursements has the ability to make journal entries. In addition, the person in the County Auditor's Office who receipts cash has the ability to make journal entries.

We recommend the County Auditor and Treasurer segregate these functions as much as possible. If it is not possible to segregate these duties, County management should be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that the internal control policies and procedures are being performed by staff. One possible oversight procedure is to distribute detailed monthly revenue and

expenditure reports to department heads and require them to affirm they have reviewed the reports and concur with the revenues and expenditures reported for their department. Another possible oversight procedure is to have someone independent of cash collections and disbursements review the bank reconciliations.

Client's Response:

*The number of staff in both departments is small. Staff carry out a wide variety of duties and responsibilities. Both receipts and disbursements are cross-verified by the Auditor's Office and the Treasurer's Office staff. The Offices will explore additional areas and procedures to provide additional oversight.*

06-2 Preparation of Financial Statements

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

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

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

Client's Response:

*The County will explore solutions to the issuance of its own financial statements.*

06-3 Accounting Policies and Procedures Manual

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

An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the County's internal control system and help to avoid circumvention of County policies.

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

Client's Response:

*The County has a policy manual in place which provides guidance to several areas of internal control with respect to reimbursement of employee travel expenses. However, departmental staffs are small in numbers, making segregation of general ledger and other accounting duties difficult in several areas. County management is aware of this issue and will continue to make attempts to provide additional oversight wherever possible. County management will define duties and authorities with respect to accounting procedures to provide segregation wherever possible.*

06-4 Journal Entries

Aitkin County limits access to the journal entry function on the Integrated Financial System (IFS) to select County employees. Several County employees have access to this function, although the vast majority of the journal entries are made by the Financial Assistant. The journal entries made by this employee are not reviewed or approved by anyone else.

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

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

Client's Response:

*Security access for the County's Integrated Financial System (IFS) will be reviewed and appropriate security will be assigned to users. Supporting documentation for journal entries is maintained with the journal entry.*

06-5 Budgeting

The County Board has not adopted a budget policy. A formal written budget policy should include policies such as:

- which funds require budgets,
- the legal level of control,
- when budgets can be modified by management and when budget modifications require Board approval,
- the budgetary basis on which the budget is adopted, and
- the procedures for monitoring the budget.

During the year, the County department heads should monitor the departmental budgets for which they are responsible. Aitkin County distributes monthly budget to actual reports to County department heads. However, the extent to which department heads review these reports is not known. Department heads do not indicate their review of the reports by signature.

We recommend the County Board adopt a budget policy to include the elements recommended above. Department heads and the County Board should monitor budgets on an ongoing basis. Reviewers should indicate their review of budget to actual reports by signing off on them.

Client's Response:

*The County will explore adopting a policy covering budget procedures and budget amendments. Currently, the County Board and County department heads receive budget reports on a quarterly basis or upon request.*

06-6 Payroll

In Aitkin County, authorization for payroll changes such as new hires, promotions, and step increases, is initiated in the personnel office. Notification of the changes to be made is sent to the Payroll Department. The payroll clerk inputs the changes to the master file of the payroll system and subsequently checks payroll edit reports to make sure the changes went into the system properly.

After the payroll clerk clears the payroll edit reports, she runs the final payroll reports, payroll checks, and direct deposit stubs. No one independent of the payroll function reviews the checks or payroll reports to determine that all payments were made to actual employees and the hours worked appear to be correct. The payroll clerk also has the ability to make journal entries on the general ledger.

We recommend that someone independent of the payroll processing function review the payroll edit reports to make sure all changes made to the payroll system master file were authorized. This independent person should also review the final payroll reports and checks to verify all employees paid are actual employees and the hours worked appear to be correct. The functions of making general journal entries should be segregated from the payroll processing function, if possible.

Client's Response:

*The Treasurer's Office staff reviews payroll payments. Annual payroll reports are reviewed by the County Auditor. A recommendation will be made for the Human Resources Department to review payroll/employee changes.*

06-7 New Vendors

Aitkin County does not have any procedures for determining if new vendors have been added to the accounts payable system or if the new vendors added are legitimate vendors.

The ability to set up new vendors on the accounts payable system should be limited to those individuals with a logical need for this function. In addition, periodically, a report called "Vendors Added List by Number" should be printed and reviewed by someone independent of the accounts payable system. That person should document the review by signing off on the report.

Also, when invoices are submitted for vendors that have not previously done business with the County, some procedures should be required to verify whether the vendor is legitimate. Procedures could include looking up the vendor in the phone book or on the internet or requiring the company to send information about their business. Periodically, the vendor listing should be reviewed for old, unused vendors, and those vendors should be removed from the system.

Client's Response:

*Invoices presented by vendors for payment are approved by the respective department head prior to submittal to the Auditor's Office. Vendors are required to provide the County an Internal Revenue Service form W-9 Request for Taxpayer Identification Number.*

06-8 Computer Risk Management

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

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

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

Client's Response:

*The County has a policy covering Information Systems' use. Employees are required to sign off on this policy.*

06-9 SSIS Segregation of Duties

In October 2006, the Aitkin County Health and Human Services Department implemented the Minnesota Department of Human Services (DHS) newly-issued Social Service Information System Fiscal Payment (SSIS) software module. The County uses this module to pay vendors providing services to the various social service programs.

The software allows the County's SSIS system administrator flexibility in assigning staff access to the software. One basic objective of internal control is to provide for segregation of incompatible duties so that no single individual could establish a vendor,

authorize a transaction, record the transaction, and obtain custody of the asset resulting from the transaction. The size of a department and the number of staff sometimes limit the application of adequate segregation of duties. County management must perform a risk assessment to determine if incompatible access exists that affects the internal control over the SSIS system. When it is not possible to limit an employee's incompatible access, mitigating controls should be implemented, such as independent review, to ensure that transactions are authorized and appropriate.

County management has not performed a risk assessment to determine if incompatible access exists since initially assigning staff access to the SSIS system.

We recommend that the County management review staff access to the SSIS system and identify those with incompatible or inappropriate access. If assigning incompatible access is unavoidable, management should develop appropriate mitigating controls to minimize the risk of undetected errors or fraud.

Client's Response:

*The County will review appropriate security levels for all staff using SSIS programs. The County notes that due to low staffing levels segregation of duties is difficult to achieve.*

06-10 Audit Adjustments

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

During our audit, we identified material adjustments in the Road and Bridge Special Revenue Fund. Receivables were increased by \$736,637 for state-aid highway project allotments, federal highway aid, and bridge bonding funding. At the fund level, revenue was offset by deferred revenue of \$1,143,521 for receivables not available during the revenue recognition period.

County officials are aware that audit adjustments are made for the state-aid highway project allotments, federal highway aid, and bridge bonding funding each year, and they rely on the independent external auditors to assist in making the necessary adjustments to

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

We recommend the County establish internal procedures for analyzing state-aid highway project allotments, federal highway projects, and bridge bonding projects to ensure the funding sources are reported in accordance with GAAP in the County's annual financial statement.

Client's Response:

*The County will review the process for establishing adjustments to the financial statements.*

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 Unclaimed Property

Minn. Stat. § 345.38 states that assets remaining unclaimed by the owner for more than three years are presumed abandoned. Minn. Stat. § 345.41 requires that anyone holding assets presumed abandoned must file a report annually with the Minnesota Commissioner of Commerce. Two bank accounts maintained by the County had outstanding checks totaling several thousand dollars that were more than three years old, but no report of abandoned property was filed with the Commissioner of Commerce.

We recommend the County Treasurer comply with the abandoned property statutes.

Client's Response:

*The County Treasurer is reviewing and working with owners of uncashed warrants to provide replacement warrants.*

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-3 Ditch Fund Balance Deficits

Seventeen of the 22 individual ditch systems had deficit unreserved, undesignated fund balances as of December 31, 2006, totaling \$75,208, the largest being \$22,044. Minn. Stat. § 103E.735, subd. 1, provides that a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

Several miles of the benefited ditch system are consolidated conservation lands managed by the Minnesota Department of Natural Resources (DNR). The DNR has refused to pay ditch assessments on consolidated conservation lands. Several counties sued the DNR trying to force it to pay ditch assessments (*Marshall County v. State*). The court ruled that the DNR has discretion to decide whether or not to pay under Minn. Stat. ch. 84A.

One of the issues asserted by the counties in the *Marshall County* case was that the DNR had not yet promulgated a rule under Minn. Stat. § 84A.55, subd. 9, which required it to establish "before January 1, 1986, the criteria for determining benefits to state-owned lands." Although the DNR should have promulgated such a rule, the court ruled that the lack of a rule did not make the DNR's refusal to pay the assessments arbitrary.

The DNR proposed a rule in 2007 pursuant to the statutory requirement. See *Proposed Permanent Rules Relating to Drainage Projects Impacting State-Owned Lands in Consolidated Conservation Areas*, 31 Minn. Reg. 1541. A rulemaking hearing has been held on the proposed rule pursuant to Minn. Stat. ch. 14, but the rulemaking process has not been completed.

We recommend that the County monitor the progress of the DNR rule. If the proposed rule is adopted, the County should work with the DNR in determining what assessments, if any, the DNR will pay related to the DNR's share of the

ditch fund deficit. After the issue with the DNR is resolved, we recommend that the County eliminate the ditch system fund balance deficits by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus balance to provide for the repair and maintenance costs of a ditch system and repay the solvent ditch funds for the intrafund loans.

Client's Response:

*At this time, the County Board does not feel the ditch fund deficits are substantial enough to warrant the investment of resources needed to spread ditch assessments.*

03-3

Aitkin Municipal Airport Commission

The Aitkin Municipal Airport Commission is accounted for in a piecemeal manner. The City of Aitkin accounts for airport grants, while Aitkin County accounts for daily airport operations, including the payment of operating expenses and receipt of operating revenues. The Airport Commission is reported as a component unit of the County. For financial reporting purposes, the grant activity accounted for by the City was combined with daily activities accounted for by the County. We also noted that the County does not account for daily airport operations on its official accounting system but rather utilizes a manual ledger and checkbook maintained by the County Treasurer. These conditions resulted in additional audit costs.

The agreement between the County and City creating the Aitkin Municipal Airport Commission, dated September 8, 1971, established two special funds to account for airport activities. The agreement specifies airport activities are to be accounted for by the County Auditor. Current accounting procedures are not in compliance with accounting procedures specified in the agreement. We also noted that the agreement establishes the Airport Commission's fiscal year-end as April 30. However, the Airport Commission is reported with the County's financial statements on a calendar year basis.

We recommend the City and County amend the Aitkin Municipal Airport Commission agreement and change its fiscal year-end to December 31. Current accounting procedures should be reviewed and modified to ensure compliance with the agreement. A separate accounting fund should be established on the County's accounting system to account for all airport operations, including grants. The Airport Commission's checking account should be closed and its cash reported as a separate account within the County's pooled cash and investments.

Client's Response:

*County staff are working with City of Aitkin staff to update the operating procedures and the joint powers agreement.*

05-1 Commercial Paper Purchase

On four occasions during 2006, the County purchased commercial paper from one issuer in excess of the amount allowed by the County's investment policy. The County's investment policy in place at the time stated, "corporate securities may be held up to \$500,000 per issuer."

We recommend that the County Treasurer purchase investments in accordance with the County's investment policy. The County revised the investment policy during 2007. The commercial paper purchases made during 2006 would have been in compliance with the new investment policy had it been in effect at the time of the purchases. We will look at this again for 2007 to ensure compliance with the revised policy.

Client's Response:

*The County revised its investment policy in 2007 to allow for greater investments of corporate securities.*

ITEM ARISING THIS YEAR

06-11 Long Lake Conservation Center Deficit Cash Balance

The County maintains a cash and investment pool available for use by all funds. An individual fund may overdraw its share of the pooled cash. The fund whose cash is overdrawn reports an interfund liability on the year-end balance sheet. An equivalent amount of another fund's position in the pool is reported as an interfund receivable on the year-end balance sheet.

The year end deficit cash balance for the Long Lake Conservation Center has been increasing for the past several years. The balance of the deficit has been as follows:

December 31, 2006	\$	149,059
December 31, 2005		64,179
December 31, 2004		57,451
December 31, 2003		38,445

Generally accepted accounting principles state if repayment of a loan is not expected within a reasonable time, the interfund balances should be reduced, and the amount not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan. As reported above, the outstanding loan balance has increased each year. This indicates that the loans are not current or short-term in nature.

We recommend the County Board authorize a transfer from the General Fund to the Long Lake Conservation Center Enterprise Fund if the Long Lake Conservation Center is unable to repay the loan.

Client's Response:

*The County Board is aware of the cash deficit in the operating fund for Long Lake.*

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

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

*Schedule 11*  
*(Continued)*

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

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

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

Client's Response:

*Aitkin County makes health insurance available to retired employees at the employee's expense. The County does not directly contribute to the insurance premium for retirees. However, an indirect contribution of funds to retiree health plans could be deemed as retiree claims are considered when claims experience is calculated for premium renewals. Retired employees are not allowed to fund insurance premiums with accumulated sick leave funds. Currently, eleven individuals participate in the retiree health plans offered by Aitkin County.*



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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

Board of County Commissioners  
Aitkin County

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Aitkin County as of and for the year ended December 31, 2006, and have issued our report thereon dated September 26, 2007. 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 Aitkin 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 96-5 and 06-1 through 06-10 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Aitkin 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 Aitkin 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, Aitkin 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 96-1.

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

Aitkin County's written responses to the significant deficiencies, legal compliance and management practices findings, and other item for consideration identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within the County, and federal awarding agencies and pass-through 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

September 26, 2007

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REBECCA OTTO  
STATE AUDITOR

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## 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  
Aitkin County

### Compliance

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

Aitkin County's basic financial statements include the operations of the Aitkin County Municipal Airport Commission, a discretely presented component unit, which expended \$33,376 in federal awards during the year ended December 31, 2006, which are not included in the Schedule of Expenditures of Federal Awards because those funds were included in the audit of the City of Aitkin.

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

#### Internal Control Over Compliance

The management of Aitkin 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 Aitkin 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 business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Aitkin County as of and for the year ended December 31, 2006, and have issued our report thereon dated September 26, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 26, 2007

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**AITKIN COUNTY  
AITKIN, MINNESOTA**

*Schedule 12*

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Pass-Through Grant Numbers</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>			
Passed Through Minnesota Department of Health Special Supplemental Nutrition for Women, Infants, and Children (WIC)		10.557	<b>\$ 49,436</b>
<b>U.S. Department of Transportation</b>			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	SP 01-090-01	20.205	\$ 763,590
Passed Through Minnesota Department of Natural Resources Federal Trails Grant	0046-05-2A	20.219	72,000
<b>Total U.S. Department of Transportation</b>			<b>\$ 835,590</b>
<b>U.S. Elections Assistance Commission</b>			
Passed Through Minnesota Secretary of State Help America Vote Act Grant	A87520	90.401	<b>\$ 381,207</b>
<b>U.S. Department of Health and Human Services</b>			
Passed Through Arrowhead Regional Development Commission National Family Caregiver Support		93.052	\$ 16,408
Passed Through Minnesota Department of Education Child Care Mandatory and Matching Funds of the Child Care and Development Fund		93.596	5,050
Passed Through Minnesota Department of Health Immunization Grants		93.268	6,942
Passed Through Minnesota Department of Human Services Centers for Disease Control and Prevention Investigations and Technical Assistance		93.283	17,325
Temporary Assistance for Needy Families (TANF)		93.558	197,661
Foster Care Title IV-E		93.658	85,998
Social Services Block Grant		93.667	121,753
Chafee Foster Care Independence Program		93.674	5,767
Community Mental Health Block Grant		93.958	4,911
Maternal and Child Health Services Block Grant to the State		93.994	33,999
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 495,814</b>

**AITKIN COUNTY  
AITKIN, MINNESOTA**

*Schedule 12*  
*(Continued)*

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Pass-Through Grant Numbers</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Homeland Security</b>			
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance		97.012	\$ 7,709
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Program		97.004	<u>34,429</u>
<b>Total U.S. Department of Homeland Security</b>			<b>\$ <u>42,138</u></b>
<b>Total Federal Awards</b>			<b>\$ <u><u>1,804,185</u></u></b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Aitkin County. The reporting entity is defined in Note 1 to the Aitkin County basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Expenditures on this schedule differ from federal revenues reported due to certain expenditures reported when the revenues are not available for recognition using the modified accrual basis of accounting.
3. Aitkin County did not pass any federal money to subrecipients in 2006.
4. Pass-through grant numbers are presented for grants for which they have been assigned.
5. Expenditures for the federal award granted to the Municipal Airport Commission are not included on this schedule because the audit of those funds was included with the audit of the City of Aitkin.