

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MORRISON COUNTY
LITTLE FALLS, MINNESOTA

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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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Year Ended December 31, 2006



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

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

**ORGANIZATION SCHEDULE
2006**

Office	Name	Term of Office	
		From	To
Commissioners			
1st District	Thomas R. Wenzel	January 2005	January 2009
2nd District	Jeff Schilling*	January 2005	January 2009
3rd District	Gene Young	January 2005	January 2009
4th District	Donald Meyer	January 2003	January 2007
5th District	William Block	January 2003	January 2007
Officers			
Elected			
Attorney	Conrad Freeberg	January 2003	January 2007
Auditor	Russ Nygren	January 2003	January 2007
Recorder	Elda Mae Johnston	January 2003	January 2007
Sheriff	Michel Wetzal	January 2003	January 2007
Treasurer	Deb Gruber	July 2005	January 2007
Appointed			
Assessor	Glen Erickson	December 2005	December 2009
Corrections	Larry Falk		Indefinite
County Administrator	Timothy Houle		Indefinite
Court Administrator	Rhonda Russell		Indefinite
Extension	Jim Carlson		Indefinite
Information Systems	Mike Disher		Indefinite
Planning and Zoning Director	Jane Starz		Indefinite
Public Health Director	Kirsten Hoese		Indefinite
Public Works Director	Steve Backowski	May 2005	May 2009
Social Services Director	Steve Reger		Indefinite
Veterans Service Officer	Paul Froncak	July 2005	July 2009

*Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Morrison County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrison County, Minnesota, as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Morrison County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrison County as of December 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2007, on our consideration of Morrison County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 28, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

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

This section of Morrison County's annual financial report presents our Management's Discussion and Analysis (MD&A) of the County's financial performance during the fiscal year that ended on December 31, 2006.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2006 fiscal year included the following:

- The County's net assets increased 7.1 percent over the prior year.
- Revenues for all governmental activities totaled \$37,852,446 and were \$6,186,622 more than expenses.
- The General Fund's fund balance increased \$1,354,233 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are County-wide financial statements which provide both short-term and long-term information about the County's overall financial status.
- The remaining statements are fund financial statements which focus on individual parts of the County, reporting the County's operations in more detail than the County-wide statements.
- The governmental fund statements tell how basic services such as general government, human services, and highways and streets, were financed in the short term as well as what remains for future spending.

- Fiduciary fund statements provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others to whom the resources belong.

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

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

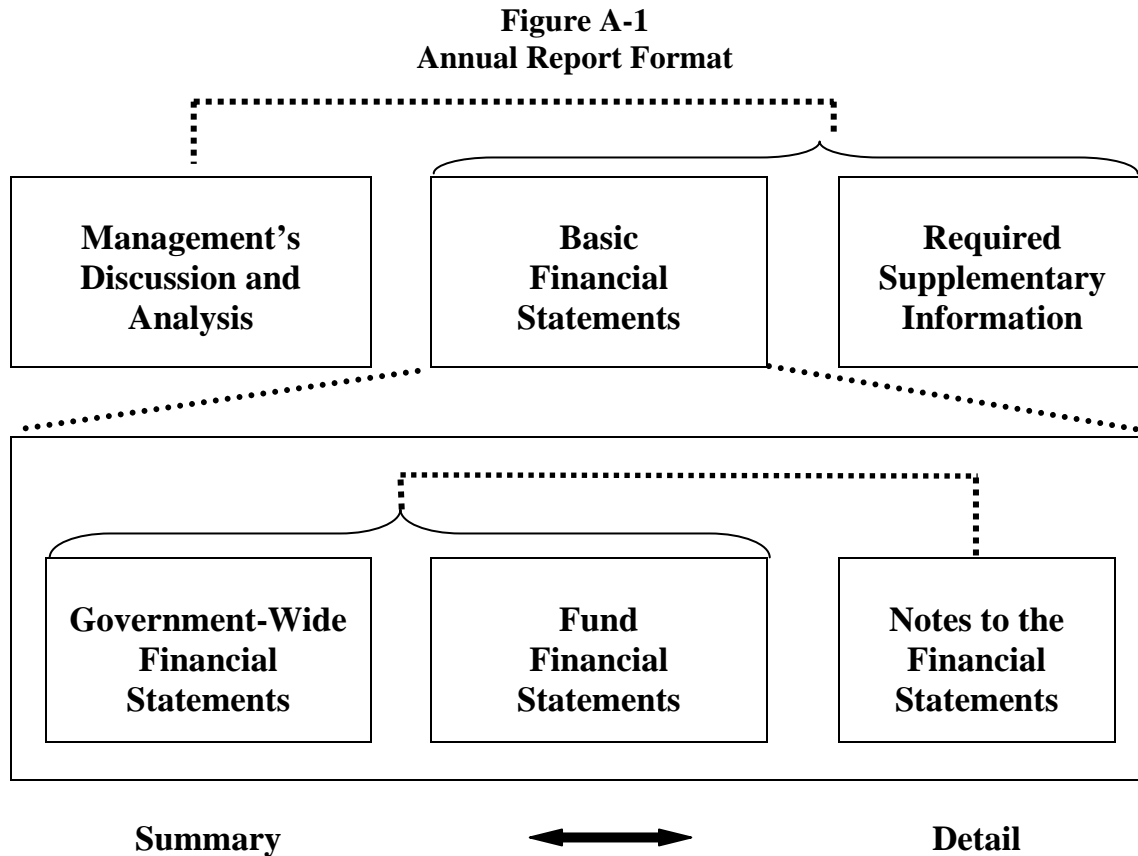


Figure A-2 summarizes the major features of the County’s financial statements, including the portion of the County’s activities they cover and the types of information they contain. The remainder of this overview section of the MD&A highlights the structure and contents of each of the statements.

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

GOVERNMENT-WIDE STATEMENTS

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

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

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

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

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

Fund Financial Statements

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

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

The County has two kinds of funds:

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

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

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Assets

The County's net assets were \$93,827,221 on December 31, 2006. (See Table A-1.)

Table A-1
Net Assets

	2006	2005	Percent Change (%)
Current and other assets	\$ 28,352,669	\$ 26,058,329	8.8
Capital and noncurrent assets	<u>82,209,056</u>	<u>77,083,952</u>	6.6
Total Assets	<u>\$ 110,561,725</u>	<u>\$ 103,142,281</u>	7.2
Current liabilities	\$ 4,150,032	\$ 3,804,557	9.1
Long-term liabilities	<u>12,584,472</u>	<u>11,697,125</u>	7.6
Total Liabilities	<u>\$ 16,734,504</u>	<u>\$ 15,501,682</u>	8.0
Net Assets			
Net assets invested in capital assets net of related debt	\$ 71,720,433	\$ 67,947,582	5.6
Restricted	5,624,846	5,795,276	(2.9)
Unrestricted	<u>16,481,942</u>	<u>13,897,741</u>	18.6
Total Net Assets	<u>\$ 93,827,221</u>	<u>\$ 87,640,599</u>	7.1

Changes in Net Assets

The County-wide total revenues were \$37,852,446 for the year ended December 31, 2006. Property taxes and intergovernmental revenues accounted for 74 percent of total revenue for the year. (See Table A-2.)

Table A-2
Changes in Net Assets

	<u>2006</u>	<u>2005</u>	<u>Percent Change (%)</u>
Revenues			
Program revenues			
Fees, charges, fines, and other	\$ 8,042,976	\$ 6,051,388	32.9
Operating grants and contributions	10,015,686	10,129,242	(1.1)
Capital grants and contributions	2,872,818	2,487,034	15.5
General revenues			
Property taxes	11,602,683	10,567,743	9.8
Unrestricted grants and contributions	3,340,595	3,368,795	(0.8)
Investment earnings	1,014,969	610,659	66.2
Other	962,719	860,483	11.9
Total Revenues	<u>\$ 37,852,446</u>	<u>\$ 34,075,344</u>	11.1
Expenses			
General government	\$ 5,479,281	\$ 5,104,785	7.3
Public safety	4,510,550	4,285,808	5.2
Highways and streets	7,418,310	4,689,595	58.2
Sanitation	2,479,707	2,139,606	15.9
Human services	8,494,092	8,706,205	(2.4)
Health	1,775,844	1,534,034	15.8
Culture and recreation	74,641	85,262	(12.5)
Conservation of natural resources	572,329	548,999	4.2
Economic development	479,670	444,208	8.0
Interest and fiscal charges on long-term liabilities	381,400	384,066	(0.7)
Total Expenses	<u>\$ 31,665,824</u>	<u>\$ 27,922,568</u>	13.4
Increase in Net Assets	\$ 6,186,622	\$ 6,152,776	0.6
Beginning Net Assets	<u>87,640,599</u>	<u>81,487,823</u>	7.6
Ending Net Assets	<u>\$ 93,827,221</u>	<u>\$ 87,640,599</u>	7.1

Total revenues surpassed expenses, increasing net assets \$6,186,622 over last year.

The County-wide cost of all governmental activities this year was \$31,665,824.

- Some of the cost was paid by the users of the County’s programs (\$8,042,976).
- The federal and state governments subsidized certain programs with grants and contributions (\$12,888,504).
- The remaining County costs (\$10,734,344), however, were paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$11,602,683 in property taxes, \$3,340,595 of state aid, and \$1,977,688 with investment earnings and other general revenues.

Figure A-3
Sources of County’s Revenues for Fiscal Year 2006

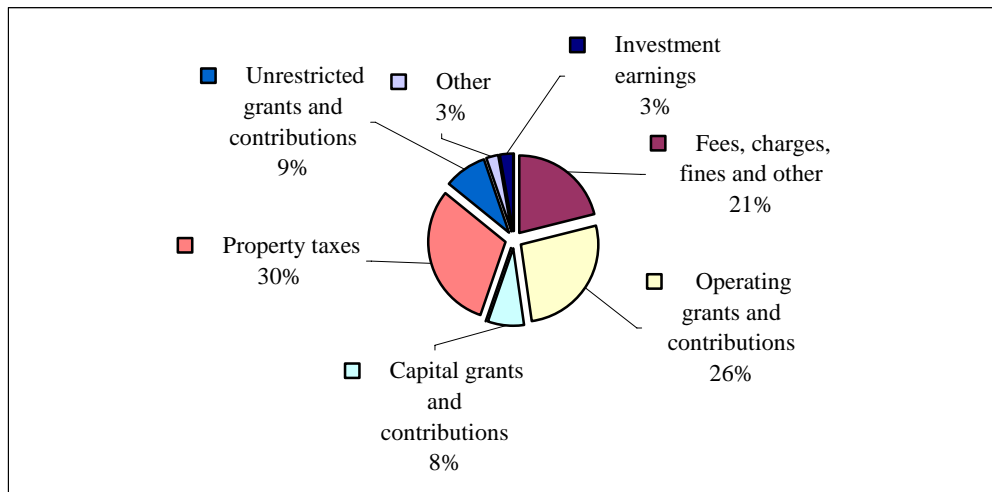
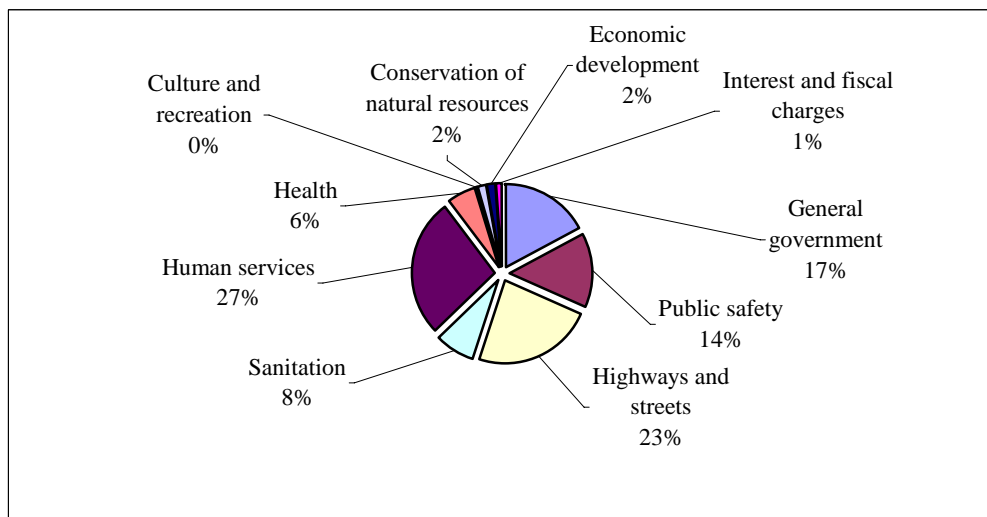


Figure A-4
County’s Expenses for Fiscal Year 2006



(Unaudited)

**Table A-3
Cost of Services**

	Total Cost of Services			Net Cost of (Revenue from) Services		
	2006	2005	Percent Change (%)	2006	2005	Percent Change (%)
General government	\$ 5,479,281	\$ 5,104,785	7.3	\$ 3,587,164	\$ 3,677,082	(2.4)
Public safety	4,510,550	4,285,808	5.2	3,140,814	2,925,465	7.4
Highways and streets	7,418,310	4,689,595	58.2	(16,035)	(2,899,759)	99.4
Sanitation	2,479,707	2,139,606	15.9	(872,762)	526,897	(265.6)
Human services	8,494,092	8,706,205	(2.4)	3,198,502	3,172,192	0.8
Health	1,775,844	1,534,034	15.8	366,426	509,455	(28.1)
Culture and recreation	74,641	85,262	(12.5)	(39,935)	(18,586)	(114.9)
Conservation of natural resources	572,329	548,999	4.2	509,100	533,884	(4.6)
Economic development	479,670	444,208	8.0	479,670	444,208	8.0
Interest	381,400	384,066	(0.7)	381,400	384,066	(0.7)
Totals	\$ 31,665,824	\$ 27,922,568	13.4	\$ 10,734,344	\$ 9,254,904	16.0

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL

The financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance of \$23,341,464. Of this amount, \$16,149,571, or 69 percent, is available for spending at the County's discretion.

Revenues for the County's governmental funds were \$35,961,864, while total expenditures were \$38,074,904.

GENERAL FUND

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

The following schedule presents a summary of General Fund revenues.

**Table A-4
General Fund Revenues**

Source	Year Ended December 31		Change	
	2006	2005	Increase (Decrease)	Percent (%)
Taxes	\$ 5,951,892	\$ 5,358,762	\$ 593,130	11.1
Intergovernmental	3,395,233	2,716,357	678,876	25.0
Charges for services	2,769,431	2,521,495	247,936	9.8
Investment income	739,856	435,063	304,793	70.1
Miscellaneous and other	905,891	871,739	34,152	3.9
Total General Fund Revenues	\$ 13,762,303	\$ 11,903,416	\$ 1,858,887	15.6

(Unaudited)

Total General Fund revenue increased by \$1,858,887, or 15.6 percent, from the previous year. The mix of property tax revenue and state aid can change significantly from year to year without any net change in revenue.

The following schedule presents a summary of General Fund expenditures.

**Table A-5
General Fund Expenditures**

Function	Year Ended December 31		Change	
	2006	2005	Increase (Decrease)	Percent (%)
General government	\$ 5,421,215	\$ 4,841,168	\$ 580,047	12.0
Public safety	4,580,444	4,272,611	307,833	7.2
Health	1,758,023	1,497,508	260,515	17.4
Culture and recreation	55,112	54,407	705	1.3
Conservation of natural resources	564,856	542,598	22,258	4.1
Economic development	53,743	53,833	(90)	(0.2)
Intergovernmental	425,927	390,375	35,552	9.1
Debt service	13,750	-	13,750	N/A
Total General Fund Expenditures	\$ 12,873,070	\$ 11,652,500	\$ 1,220,570	10.5

General Fund Budgetary Highlights

Over the course of the year, the County did not revise the annual operating budget.

- Actual revenues were \$1,182,326 more than expected; this is primarily due to the jail remodel adding an additional 48 beds to the jail, interest earnings, and an increase in state grants.
- The actual expenditures were \$117,758 more than budget.

CONSTRUCTION PROJECTS AND DEBT SERVICE

The County is currently making major improvements to the Sheriff's Dispatch Center. The County issued \$665,000 in Capital Improvement Plan Bonds during 2006 to help fund this project. The activity for this project is being run through the General Fund. The County also issued another \$1,785,000 in Capital Improvement Plan Bonds during 2006 to finance a portion of the 2006 street construction program and the County's share of the 2006 pathway project. The activity for these projects is being run through the Road and Bridge Special Revenue Fund.

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

CAPITAL ASSETS

By the end of 2006, the County had invested over \$124,000,000 in a broad range of capital assets, including buildings, computers, equipment, and infrastructure. (See Table A-6.) (More detailed information about capital assets can be found in Note 2.A.2. to the financial statements.) Total depreciation expense for the year was \$3,314,691.

Table A-6
Capital Assets

	2006	2005	Percent Change (%)
Land	\$ 3,415,224	\$ 3,410,681	0.1
Construction in progress	-	3,660,845	(100.0)
Buildings	21,814,380	17,640,039	23.7
Machinery, furniture, and equipment	6,609,723	5,800,739	13.9
Infrastructure	92,624,783	85,794,007	8.0
Less: accumulated depreciation	(42,328,677)	(39,243,729)	7.9
Totals	<u>\$ 82,135,433</u>	<u>\$ 77,062,582</u>	6.6

LONG-TERM LIABILITIES

At year-end, the County had \$14,599,012 in long-term liabilities outstanding. The current portion of these liabilities is \$2,014,540. The County's total long-term liabilities increased primarily due to the issuance of \$2,450,000 in General Obligation Capital Improvement Plan Bonds during 2006.

Table A-7
Long-Term Liabilities

	2006	2005	Percent Change (%)
General obligation bonds	\$ 10,340,000	\$ 8,965,000	15.3
Installment purchase	75,000	150,000	(50.0)
Compensated absences	1,445,535	1,367,027	5.7
Estimated liability for landfill closure/ postclosure	2,738,477	2,781,602	(1.6)
Total	<u>\$ 14,599,012</u>	<u>\$ 13,263,629</u>	10.1

FACTORS BEARING ON THE COUNTY'S FUTURE

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

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

COMPONENT UNIT INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

EXHIBIT 1

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

	Primary Government Governmental Activities	Component Unit Rural Development Finance Authority
<u>Assets</u>		
Cash and pooled investments	\$ 22,734,851	\$ 90,153
Petty cash and change funds	10,855	-
Departmental cash	29,039	-
Cash with fiscal agent	66,061	-
Delinquent taxes receivable	419,640	-
Special assessments receivable		
Delinquent	698	-
Deferred	648	-
Accounts receivable	217,804	-
Accrued interest receivable	389,432	-
Loans receivable	30,000	-
Due from other governments	3,855,735	-
Inventories	597,906	-
Deferred charges	73,623	-
Capital assets		
Non-depreciable	3,415,224	-
Depreciable - net of accumulated depreciation	78,720,209	-
Total Assets	\$ 110,561,725	\$ 90,153
<u>Liabilities</u>		
Accounts payable	\$ 622,133	\$ -
Salaries payable	841,522	-
Contracts payable	258,302	-
Due to other governments	200,831	18,150
Accrued interest payable	175,991	-
Unearned revenue	36,713	-
Long-term liabilities		
Due within one year	2,014,540	-
Due in more than one year	12,584,472	-
Total Liabilities	\$ 16,734,504	\$ 18,150
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 71,720,433	\$ -
Restricted for		
General government	33,725	-
Sanitation	3,019,068	-
Debt service	2,572,053	-
Unrestricted	16,481,942	72,003
Total Net Assets	\$ 93,827,221	\$ 72,003

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Primary government		
Governmental activities		
General government	\$ 5,479,281	\$ 1,254,684
Public safety	4,510,550	1,107,416
Highways and streets	7,418,310	716,370
Sanitation	2,479,707	3,273,894
Human services	8,494,092	821,009
Health	1,775,844	869,603
Culture and recreation	74,641	-
Conservation of natural resources	572,329	-
Economic development	479,670	-
Interest	381,400	-
Total primary government	<u>\$ 31,665,824</u>	<u>\$ 8,042,976</u>
Component unit		
Rural Development Finance Authority	<u>\$ 79,248</u>	<u>\$ 554</u>

General Revenues

Property taxes
Tax increments
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Unrestricted investment income
Miscellaneous

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Component Unit Rural Development Finance Authority
\$ 624,556	\$ 12,877	\$ (3,587,164)	
262,320	-	(3,140,814)	
3,858,034	2,859,941	16,035	
78,575	-	872,762	
4,474,581	-	(3,198,502)	
539,815	-	(366,426)	
114,576	-	39,935	
63,229	-	(509,100)	
-	-	(479,670)	
-	-	(381,400)	
\$ 10,015,686	\$ 2,872,818	\$ (10,734,344)	
\$ -	\$ -		\$ (78,694)
		\$ 11,602,683	\$ 56,783
		-	44,432
		121,722	-
		3,340,595	8,655
		1,014,969	622
		840,997	-
		\$ 16,920,966	\$ 110,492
		\$ 6,186,622	\$ 31,798
		87,640,599	40,205
		\$ 93,827,221	\$ 72,003

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FUND FINANCIAL STATEMENTS

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

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

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 7,656,617	\$ 1,990,473
Petty cash and change funds	5,730	75
Departmental cash	23,553	-
Cash with fiscal agent	-	-
Delinquent taxes receivable	208,486	82,972
Special assessments receivable		
Delinquent	-	-
Deferred	-	-
Accounts receivable	84,306	6,914
Accrued interest receivable	237,641	-
Loans receivable	-	-
Due from other funds	6,779	-
Due from other governments	301,661	3,026,607
Inventories	-	597,906
Advance to other funds	-	-
	\$ 8,524,773	\$ 5,704,947
Total Assets	\$ 8,524,773	\$ 5,704,947

EXHIBIT 3

<u>Social Services</u>	<u>Solid Waste</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 4,303,909	\$ 5,766,348	\$ 2,470,343	\$ 547,161	\$ 22,734,851
5,050	-	-	-	10,855
-	951	4,535	-	29,039
-	-	66,061	-	66,061
88,972	781	35,631	2,798	419,640
-	550	-	148	698
-	-	-	648	648
36,127	90,457	-	-	217,804
-	120,677	31,114	-	389,432
-	-	-	30,000	30,000
-	-	-	-	6,779
523,067	4,400	-	-	3,855,735
-	-	-	-	597,906
-	600,000	-	-	600,000
<u>\$ 4,957,125</u>	<u>\$ 6,584,164</u>	<u>\$ 2,607,684</u>	<u>\$ 580,755</u>	<u>\$ 28,959,448</u>

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

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

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 193,819	\$ 22,500
Salaries payable	511,572	116,336
Contracts payable	-	258,302
Due to other funds	-	-
Due to other governments	67,637	5,634
Deferred revenue - unavailable	208,486	2,713,690
Deferred revenue - unearned	36,713	-
Advance from other funds	-	600,000
	\$ 1,018,227	\$ 3,716,462
Fund Balances		
Reserved for		
Encumbrances	\$ 273,119	\$ -
Inventories	-	597,906
Advance to other funds	-	-
Law library	33,725	-
Debt service	-	-
Loans receivable	-	-
Landfill closure	-	-
Election equipment	66,022	-
Unreserved		
Designated for future expenditures	1,963,788	-
Designated for contingencies	240,278	-
Designated for self-insurance	666,597	-
Undesignated	4,263,017	1,390,579
Unreserved, reported in nonmajor Special revenue funds	-	-
	\$ 7,506,546	\$ 1,988,485
Total Liabilities and Fund Balances	\$ 8,524,773	\$ 5,704,947

EXHIBIT 3
(Continued)

<u>Social Services</u>	<u>Solid Waste</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 248,489	\$ 157,321	\$ -	\$ 4	\$ 622,133
210,633	2,981	-	-	841,522
-	-	-	-	258,302
6,779	-	-	-	6,779
91,114	3,819	-	32,627	200,831
88,972	1,331	35,631	3,594	3,051,704
-	-	-	-	36,713
-	-	-	-	600,000
\$ 645,987	\$ 165,452	\$ 35,631	\$ 36,225	\$ 5,617,984
\$ -	\$ -	\$ -	\$ -	\$ 273,119
-	-	-	-	597,906
-	600,000	-	-	600,000
-	-	-	-	33,725
-	-	2,572,053	-	2,572,053
-	-	-	30,000	30,000
-	3,019,068	-	-	3,019,068
-	-	-	-	66,022
777,000	1,350,000	-	-	4,090,788
-	-	-	-	240,278
-	-	-	-	666,597
3,534,138	1,449,644	-	-	10,637,378
-	-	-	514,530	514,530
\$ 4,311,138	\$ 6,418,712	\$ 2,572,053	\$ 544,530	\$ 23,341,464
\$ 4,957,125	\$ 6,584,164	\$ 2,607,684	\$ 580,755	\$ 28,959,448

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)	\$	23,341,464
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.		82,135,433
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.		3,051,704
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	\$ (10,340,000)	
Installment purchases	(75,000)	
Compensated absences	(1,445,535)	
Estimated liability for landfill closure/postclosure	(2,738,477)	
Accrued interest payable	(175,991)	
Deferred debt issuance charges	73,623	
	(14,701,380)	(14,701,380)
Net assets of governmental activities (Exhibit 1)	\$	<u>93,827,221</u>

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

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

	General	Road and Bridge
Revenues		
Taxes	\$ 5,951,892	\$ 2,256,629
Special assessments	-	-
Licenses and permits	273,847	-
Intergovernmental	3,395,233	5,613,027
Charges for services	2,769,431	711,120
Fines and forfeits	65,134	-
Investment income	739,856	-
Miscellaneous	566,910	5,250
	\$ 13,762,303	\$ 8,586,026
Expenditures		
Current		
General government	\$ 5,421,215	\$ -
Public safety	4,580,444	-
Highways and streets	-	12,049,261
Sanitation	-	-
Human services	-	-
Health	1,758,023	-
Culture and recreation	55,112	-
Conservation of natural resources	564,856	7,249
Economic development	53,743	-
Intergovernmental		
Highways and streets	-	333,152
Culture and recreation	425,927	-
Debt service		
Principal	-	-
Interest	-	-
Bond issuance costs	13,750	42,424
	\$ 12,873,070	\$ 12,432,086
Excess of Revenues Over (Under) Expenditures	\$ 889,233	\$ (3,846,060)
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ 200,000
Transfers out	(200,000)	-
Bonds issued	665,000	1,741,988
	\$ 465,000	\$ 1,941,988
Net Change in Fund Balances	\$ 1,354,233	\$ (1,904,072)
Fund Balances - January 1	6,152,313	3,701,647
Increase (decrease) in reserved for inventories	-	190,910
	\$ 7,506,546	\$ 1,988,485
Fund Balances - December 31	\$ 7,506,546	\$ 1,988,485

EXHIBIT 5

Social Services	Solid Waste	Debt Service	Nonmajor Funds	Total
\$ 2,317,944	\$ 19,076	\$ 888,666	\$ 91,310	\$ 11,525,517
-	258	-	611	869
-	12,900	-	-	286,747
5,158,015	84,085	258,186	27,990	14,536,536
166,846	3,222,443	-	-	6,869,840
-	-	-	-	65,134
-	194,930	80,183	-	1,014,969
654,163	38,551	310,373	87,005	1,662,252
\$ 8,296,968	\$ 3,572,243	\$ 1,537,408	\$ 206,916	\$ 35,961,864
\$ -	\$ -	\$ -	\$ 159,498	\$ 5,580,713
-	-	-	-	4,580,444
-	-	-	-	12,049,261
-	2,613,206	-	-	2,613,206
8,471,226	-	-	-	8,471,226
-	-	-	-	1,758,023
-	-	-	19,289	74,401
-	-	-	601	572,706
-	-	-	-	53,743
-	-	-	-	333,152
-	-	-	-	425,927
-	-	1,150,000	-	1,150,000
-	-	355,860	68	355,928
-	-	-	-	56,174
\$ 8,471,226	\$ 2,613,206	\$ 1,505,860	\$ 179,456	\$ 38,074,904
\$ (174,258)	\$ 959,037	\$ 31,548	\$ 27,460	\$ (2,113,040)
\$ -	\$ -	\$ -	\$ -	\$ 200,000
-	-	-	-	(200,000)
-	-	43,012	-	2,450,000
\$ -	\$ -	\$ 43,012	\$ -	\$ 2,450,000
\$ (174,258)	\$ 959,037	\$ 74,560	\$ 27,460	\$ 336,960
4,485,396	5,459,675	2,497,493	517,070	22,813,594
-	-	-	-	190,910
\$ 4,311,138	\$ 6,418,712	\$ 2,572,053	\$ 544,530	\$ 23,341,464

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) \$ 336,960

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

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

Deferred revenue - December 31	\$ 3,051,704	
Deferred revenue - January 1	(1,161,122)	1,890,582

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	\$ 8,439,485	
Net book value of assets disposed of	(51,943)	
Current year depreciation	(3,314,691)	5,072,851

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

Principal repayments		
General obligation bonds	\$ 1,075,000	
Capital lease	75,000	
Issuance costs, discounts, and payments	56,174	
Current year amortization of issuance costs	(3,921)	
Current year bond proceeds	(2,450,000)	(1,247,747)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest payable	\$ (21,551)	
Change in compensated absences	(78,508)	
Change in estimated liability for landfill closure/postclosure	43,125	
Change in inventories	190,910	133,976

Change in net assets of governmental activities (Exhibit 2) \$ 6,186,622

MORRISON COUNTY
LITTLE FALLS, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	\$ 1,057,327
Departmental cash	<u>2,855</u>
Total Assets	<u>\$ 1,060,182</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 1,060,182</u>

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**MORRISON COUNTY
LITTLE FALLS, 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 issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Discretely Presented Component Unit

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Unit (Continued)

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

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

Additionally, the County reports the following funds:

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2006, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2006 were \$739,856.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

2. Receivables and Payables

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

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

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

Taxes receivable consist of uncollected taxes payable in the years 2001 through 2006. Taxes receivable are offset by deferred revenue for the amount not collectible within 60 days of December 31 to indicate they are not available to pay current expenditures. No provision has been made for an estimated uncollectible amount.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

Special assessments receivable consist of delinquent special assessments payable in the years 2001 through 2006 and deferred special assessments payable in 2007 and after. No provision has been made for an estimated uncollectible amount.

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

3. Inventories

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

4. Capital Assets

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

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

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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

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

5. Compensated Absences

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

6. Deferred Revenue

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Long-Term Obligations

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

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

8. Fund Equity

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

9. Use of Estimates

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 22,734,851
Petty cash and change funds	10,855
Departmental cash	29,039
Cash with fiscal agent	66,061
Discretely presented component unit	
Cash and pooled investments	90,153
Statement of fiduciary net assets	
Cash and pooled investments	1,057,327
Departmental cash	<u>2,855</u>
 Total Cash and Investments	 <u>\$ 23,991,141</u>

a. Deposits

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

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 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;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. At December 31, 2006, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

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

Interest Rate Risk

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

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Credit Risk (Continued)

organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute. At December 31, 2006, the County had no investments requiring a credit rating.

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

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

Investment Type	Concentration Risk <u>Over 5 Percent of Portfolio</u>	Interest Rate Risk <u>Maturity Date</u>	Carrying (Fair) Value
Primary Government			
Negotiable certificates of deposit	17.7%	<1yr	\$ 907,713
MAGIC Fund	80.4%	N/A	4,125,312
U.S. Treasury Securities			
Escrow account	N/A	<1yr	66,061
Money market with broker	N/A	N/A	31,736
			<u>5,130,822</u>
Total investments			\$ 5,130,822
Deposits			18,531,892
Petty cash and change funds			10,855
Departmental cash			31,894
Cash on hand			195,525
			<u>195,525</u>
Total cash and investments - primary government			\$ 23,900,988
Component Unit			
Deposits			90,153
			<u>90,153</u>
Total Cash and Investments			<u>\$ 23,991,141</u>

N/A - Not Applicable

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land - infrastructure right-of-way	\$ 1,723,842	\$ 4,543	\$ -	\$ 1,728,385
Land	1,686,839	-	-	1,686,839
Construction in progress	3,660,845	-	3,660,845	-
Total capital assets not depreciated	<u>\$ 7,071,526</u>	<u>\$ 4,543</u>	<u>\$ 3,660,845</u>	<u>\$ 3,415,224</u>
Capital assets depreciated				
Buildings	\$ 17,640,039	\$ 4,174,341	\$ -	\$ 21,814,380
Machinery, furniture, and equipment	5,800,739	1,090,670	281,686	6,609,723
Infrastructure	85,794,007	6,830,776	-	92,624,783
Total capital assets depreciated	<u>\$ 109,234,785</u>	<u>\$ 12,095,787</u>	<u>\$ 281,686</u>	<u>\$ 121,048,886</u>
Less: accumulated depreciation for				
Buildings	\$ 5,468,170	\$ 430,743	\$ -	\$ 5,898,913
Machinery, furniture, and equipment	3,943,267	450,034	229,743	4,163,558
Infrastructure	29,832,292	2,433,914	-	32,266,206
Total accumulated depreciation	<u>\$ 39,243,729</u>	<u>\$ 3,314,691</u>	<u>\$ 229,743</u>	<u>\$ 42,328,677</u>
Total capital assets depreciated, net	<u>\$ 69,991,056</u>	<u>\$ 8,781,096</u>	<u>\$ 51,943</u>	<u>\$ 78,720,209</u>
Governmental Activities Capital Assets, Net	<u>\$ 77,062,582</u>	<u>\$ 8,785,639</u>	<u>\$ 3,712,788</u>	<u>\$ 82,135,433</u>

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

Governmental activities	
General government	\$ 278,982
Public safety	107,401
Highway and streets, including infrastructure assets	2,841,201
Sanitation	51,166
Human services	14,757
Health	20,944
Culture and recreation	240
Total Depreciation Expense - Governmental Activities	<u>\$ 3,314,691</u>

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Social Services	<u>\$ 6,779</u>

The Social Services Special Revenue Fund owed the General Fund for miscellaneous costs.

2. Advance From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Solid Waste	Road and Bridge	<u>\$ 600,000</u>

During 1998, the Solid Waste Special Revenue Fund loaned the Road and Bridge Special Revenue Fund \$1,500,000 to finance construction of County roads. Beginning in 1999, the Road and Bridge Special Revenue Fund was to start making annual payments of \$100,000 over a 15-year period to pay back the loan. The Road and Bridge Special Revenue Fund did not make its scheduled loan payment in 2004, but made a \$300,000 payment in 2006.

3. Interfund Transfers

In 2006, the General Fund transferred \$200,000 to the Road and Bridge Special Revenue Fund to partially fund construction of a new public works building.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2006, were as follows:

	Governmental Activities
Accounts	\$ 622,133
Salaries	841,522
Contracts	258,302
Due to other governments	200,831
Accrued interest	175,991
Total Payables	\$ 2,098,779

2. Deferred Revenue

Deferred revenue consists of taxes and special assessments receivable, state grants not collected soon enough after year-end to pay liabilities of the current period, and state and federal grants received but not yet earned. Deferred revenue at December 31, 2006, is summarized below by fund:

	Special Assessments	Taxes	Grants	Total
Major governmental funds				
General	\$ -	\$ 208,486	\$ 36,713	\$ 245,199
Road and Bridge	-	82,972	2,630,718	2,713,690
Social Services	-	88,972	-	88,972
Solid Waste	550	781	-	1,331
Debt Service	-	35,631	-	35,631
Other governmental funds				
County Building	-	2,053	-	2,053
County Parks	-	745	-	745
County Ditch	796	-	-	796
Total	\$ 1,346	\$ 419,640	\$ 2,667,431	\$ 3,088,417
Deferred revenue				
Unavailable	\$ 1,346	\$ 419,640	\$ 2,630,718	\$ 3,051,704
Unearned	-	-	36,713	36,713
Total	\$ 1,346	\$ 419,640	\$ 2,667,431	\$ 3,088,417

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Vacation and Sick Leave

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

The County pays unused accumulated paid time off to employees upon termination based on two different severance plans. Unvested paid time off valued at \$1,510,395 at December 31, 2006, is available to employees in the event of an absence but is not paid to them at termination.

4. Retired Employee Health Insurance Benefits

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

The County recognizes the cost of providing health insurance for postemployment benefits on a pay-as-you-go basis. The County contribution for this benefit, paid by the General Fund for the year ended December 31, 2006, was \$21,885 for the eligible employees.

5. Long-Term Debt - Bonds and Notes

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

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2006</u>
General obligation bonds					
1998 G.O. Capital Improvement Plan Refunding Bonds	2012	\$30,000 - \$220,000	4.10 - 4.90	\$ 975,000	\$ 615,000
2001 G.O. Capital Improvement Refunding Bonds	2010	\$210,000 - \$260,000	2.25 - 3.75	1,850,000	985,000

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

5. Long-Term Debt - Bonds and Notes (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
2001 G.O. Tax Increment Refunding Bonds	2007	\$305,000 - \$775,000	4.00 - 4.50	2,090,000	775,000
2002 G.O. Capital Improvement Plan Bonds	2018	\$155,000 - \$510,000	4.20 - 4.80	3,250,000	3,250,000
2002 G.O. Jail Revenue Refunding Bonds	2010	\$355,000 - \$430,000	3.00 - 3.55	2,725,000	1,630,000
2003 G.O. Capital Improvement Plan Bonds	2018	\$30,000 - \$65,000	2.50 - 4.25	705,000	635,000
2006A G.O. Capital Improvement Plan Bonds	2018	\$170,000 - \$230,000	4.00 - 4.25	1,785,000	1,785,000
2006B G.O. Capital Improvement Plan Bonds	2011	\$150,000 - \$180,000	4.00	665,000	665,000
Total General Obligation Bonds				<u>\$ 14,045,000</u>	<u>\$ 10,340,000</u>
Installment purchase obligations 1997 Installment Purchase with Johnson Controls, Inc.	2007	\$50,000 - \$75,000	4.20 - 5.35	<u>\$ 645,000</u>	<u>\$ 75,000</u>

6. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds		Installment Purchase Obligations	
	Principal	Interest	Principal	Interest
2007	\$ 1,525,000	\$ 392,634	\$ 75,000	\$ 2,006
2008	920,000	349,539	-	-
2009	970,000	315,493	-	-
2010	1,180,000	275,209	-	-
2011	780,000	236,183	-	-
2012 - 2016	3,395,000	747,355	-	-
2017 - 2018	1,570,000	72,995	-	-
Total	<u>\$ 10,340,000</u>	<u>\$ 2,389,408</u>	<u>\$ 75,000</u>	<u>\$ 2,006</u>

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 8,965,000	\$ 2,450,000	\$ 1,075,000	\$ 10,340,000	\$ 1,525,000
Installment purchase	150,000	-	75,000	75,000	75,000
Compensated absences	1,367,027	78,508	-	1,445,535	414,540
Estimated liability for closure/postclosure	2,781,602	-	43,125	2,738,477	-
Total Long-Term Liabilities	\$ 13,263,629	\$ 2,528,508	\$ 1,193,125	\$ 14,599,012	\$ 2,014,540

8. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place the final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$2,738,477 landfill closure and postclosure care liability at December 31, 2006, represents the cumulative amount reported to date based on the use of 88.44 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$357,946 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2006. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The County is in compliance with these requirements and is currently making monthly payments for financial assurance to the Solid Waste Special Revenue Fund under financial hardship status. Hardship was granted based on the current Solid Waste

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

8. Landfill Closure and Postclosure Care Costs (Continued)

Management Plan, which is based on a five-year planning period. In the spring of 1994, Morrison County received approval of its Solid Waste Management Plan, which granted Morrison County ten years of Certificate of Need for solid waste management. At December 31, 2006, the County has restricted net assets of \$3,019,068 to finance closure and postclosure care. The County expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenues.

3. Pension Plans

A. Plan Description

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

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Pension Plans

A. Plan Description (Continued)

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

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

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; 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.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Pension Plans (Continued)

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 were 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 7.00 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:

	2006	2007
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

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	\$ 523,215	\$ 100,920	\$ 92,367
2005	451,950	82,448	86,290
2004	425,052	73,596	85,655

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$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.

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

B. Joint Ventures

1. Central Minnesota Community Corrections Agency

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

B. Joint Ventures

1. Central Minnesota Community Corrections Agency (Continued)

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

The Central Minnesota Community Corrections Agency is funded through state grants and contributions from Aitkin, Crow Wing, and Morrison Counties. Morrison County had expenditures of \$163,751 for community corrections in 2006.

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

2. Little Falls-Morrison County Airport Commission

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

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

B. Joint Ventures

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

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

- a. All assets, other than capital improvement assets, will be disposed of in any manner agreed upon by the City of Little Falls and Morrison County. If no agreement is reached within three months after termination, the County Board will appoint an individual as its representative, and the City Council will appoint an individual, who may be a City official, as its representative. The Minnesota Commissioner of Aeronautics will appoint a third person who, together with the City and County appointees, will constitute an advisory board on disposition of the airport property. This board will, as soon as possible, prepare and recommend to the City Council and County Board a complete plan for the disposition of the property. The plan will provide for the continuation of the use of the property as a public airport, if practicable.
- b. If the agreement is terminated by action of Morrison County, all capital improvement assets will belong to the City of Little Falls free and clear of any claim by the County.
- c. If the agreement is terminated by action of the City of Little Falls, all capital improvement assets jointly owned by the City and County will belong to the City of Little Falls, provided the City pays the County 50 percent of the depreciated value of the capital improvement assets.

Morrison County provided \$22,823 in funding to the Commission during 2006. Financial information for the Commission can be obtained from:

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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

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

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

4. Morrison County Interagency Coordinating Council

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

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

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

5. Central Minnesota Emergency Medical Services Region

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

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

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

Complete financial information can be obtained from:

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

REQUIRED SUPPLEMENTARY INFORMATION

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Schedule 1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 5,959,034	\$ 5,959,034	\$ 5,951,892	\$ (7,142)
Licenses and permits	375,989	375,989	273,847	(102,142)
Intergovernmental	3,001,405	3,001,405	3,395,233	393,828
Charges for services	2,443,098	2,443,098	2,769,431	326,333
Fines and forfeits	54,000	54,000	65,134	11,134
Investment income	320,000	320,000	739,856	419,856
Miscellaneous	426,451	426,451	566,910	140,459
Total Revenues	\$ 12,579,977	\$ 12,579,977	\$ 13,762,303	\$ 1,182,326
Expenditures				
Current				
General government				
Commissioners	\$ 238,536	\$ 238,536	\$ 232,592	\$ 5,944
Courts	22,500	22,500	21,330	1,170
Law library	50,000	50,000	45,092	4,908
Administrator	305,189	305,189	301,690	3,499
Risk management administration	222,844	222,844	236,181	(13,337)
County auditor	1,164,830	1,164,830	956,987	207,843
Motor vehicle/license bureau	262,956	262,956	251,720	11,236
County treasurer	208,053	208,053	196,595	11,458
County assessor	642,886	642,886	623,760	19,126
Data processing	405,234	405,234	434,602	(29,368)
Attorney	606,695	606,695	594,021	12,674
Recorder	320,600	320,600	347,678	(27,078)
Surveyor	2,400	2,400	75	2,325
Planning and zoning	324,807	324,807	339,057	(14,250)
Buildings and plant	665,012	665,012	619,791	45,221
Veterans service officer	143,929	143,929	141,251	2,678
Appropriations - airport	27,000	27,000	22,823	4,177
Other general government	65,300	65,300	55,970	9,330
Total general government	\$ 5,678,771	\$ 5,678,771	\$ 5,421,215	\$ 257,556
Public safety				
Sheriff	\$ 2,110,747	\$ 2,110,747	\$ 2,218,867	\$ (108,120)
Boat and water safety	27,888	27,888	25,497	2,391
Emergency services	52,000	52,000	14,353	37,647
Coroner	56,338	56,338	57,618	(1,280)
County jail	1,959,792	1,959,792	2,026,897	(67,105)
Civil defense	84,096	84,096	73,461	10,635
Community corrections	232,298	232,298	163,751	68,547
Total public safety	\$ 4,523,159	\$ 4,523,159	\$ 4,580,444	\$ (57,285)
Health				
Nursing service	\$ 1,650,450	\$ 1,650,450	\$ 1,758,023	\$ (107,573)

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Culture and recreation				
Historical society	\$ 41,171	\$ 41,171	\$ 41,112	\$ 59
Other	14,000	14,000	14,000	-
Total culture and recreation	\$ 55,171	\$ 55,171	\$ 55,112	\$ 59
Conservation of natural resources				
County extension	\$ 145,782	\$ 145,782	\$ 136,761	\$ 9,021
Soil and water conservation	65,000	65,000	99,517	(34,517)
Agricultural society	45,336	45,336	60,838	(15,502)
Water planning	46,596	46,596	46,266	330
Other	65,377	65,377	221,474	(156,097)
Total conservation of natural resources	\$ 368,091	\$ 368,091	\$ 564,856	\$ (196,765)
Economic development				
Community development	\$ 53,743	\$ 53,743	\$ 53,743	\$ -
Intergovernmental				
Culture and recreation				
Library	\$ 425,927	\$ 425,927	\$ 425,927	\$ -
Debt service				
Bond issuance costs	\$ -	\$ -	\$ 13,750	\$ (13,750)
Total Expenditures	\$ 12,755,312	\$ 12,755,312	\$ 12,873,070	\$ (117,758)
Excess of Revenues Over (Under)				
Expenditures	\$ (175,335)	\$ (175,335)	\$ 889,233	\$ 1,064,568
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (200,000)	\$ (200,000)
Bonds issued	-	665,000	665,000	-
Total Other Financing Sources (Uses)	\$ -	\$ 665,000	\$ 465,000	\$ (200,000)
Net Change in Fund Balance	\$ (175,335)	\$ 489,665	\$ 1,354,233	\$ 864,568
Fund Balance - January 1	6,152,313	6,152,313	6,152,313	-
Fund Balance - December 31	\$ 5,976,978	\$ 6,641,978	\$ 7,506,546	\$ 864,568

**MORRISON COUNTY
LITTLE FALLS, 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		
Revenues				
Taxes	\$ 2,268,628	\$ 2,268,628	\$ 2,256,629	\$ (11,999)
Intergovernmental	6,090,904	6,090,904	5,613,027	(477,877)
Charges for services	315,000	315,000	711,120	396,120
Miscellaneous	-	-	5,250	5,250
Total Revenues	\$ 8,674,532	\$ 8,674,532	\$ 8,586,026	\$ (88,506)
Expenditures				
Current				
Highways and streets				
Administration	\$ 322,625	\$ 322,625	\$ 299,117	\$ 23,508
Maintenance	1,826,805	1,826,805	1,672,002	154,803
Construction	5,098,360	5,098,360	8,748,600	(3,650,240)
Equipment, maintenance, and shops	1,097,942	1,097,942	1,178,683	(80,741)
Other	315,000	315,000	150,859	164,141
Total highways and streets	\$ 8,660,732	\$ 8,660,732	\$ 12,049,261	\$ (3,388,529)
Conservation of natural resources				
Agricultural inspector	13,800	13,800	7,249	6,551
Intergovernmental				
Highways and streets	-	-	333,152	(333,152)
Debt service				
Bond issuance costs	-	42,424	42,424	-
Total Expenditures	\$ 8,674,532	\$ 8,716,956	\$ 12,432,086	\$ (3,715,130)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ (42,424)	\$ (3,846,060)	\$ (3,803,636)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 200,000	\$ 200,000
Bonds issued	-	1,741,988	1,741,988	-
Total Other Financing Sources (Uses)	\$ -	\$ 1,741,988	\$ 1,941,988	\$ 200,000
Net Change in Fund Balance	\$ -	\$ 1,699,564	\$ (1,904,072)	\$ (3,603,636)
Fund Balance - January 1	3,701,647	3,701,647	3,701,647	-
Increase (decrease) in reserved for inventories	-	-	190,910	190,910
Fund Balance - December 31	\$ 3,701,647	\$ 5,401,211	\$ 1,988,485	\$ (3,412,726)

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES 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>		
Revenues				
Taxes	\$ 2,327,338	\$ 2,327,338	\$ 2,317,944	\$ (9,394)
Intergovernmental	5,158,082	5,158,082	5,158,015	(67)
Charges for services	160,691	160,691	166,846	6,155
Miscellaneous	618,765	618,765	654,163	35,398
Total Revenues	\$ 8,264,876	\$ 8,264,876	\$ 8,296,968	\$ 32,092
Expenditures				
Current				
Human services				
Income maintenance	\$ 2,702,780	\$ 2,702,780	\$ 2,757,903	\$ (55,123)
Social services	5,562,096	5,562,096	5,713,323	(151,227)
Total Expenditures	\$ 8,264,876	\$ 8,264,876	\$ 8,471,226	\$ (206,350)
Net Change in Fund Balance	\$ -	\$ -	\$ (174,258)	\$ (174,258)
Fund Balance - January 1	4,485,396	4,485,396	4,485,396	-
Fund Balance - December 31	\$ 4,485,396	\$ 4,485,396	\$ 4,311,138	\$ (174,258)

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Schedule 4

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 19,400	\$ 19,400	\$ 19,076	\$ (324)
Special assessments	-	-	258	258
Licenses and permits	7,500	7,500	12,900	5,400
Intergovernmental	84,600	84,600	84,085	(515)
Charges for services	1,523,242	1,523,242	3,222,443	1,699,201
Investment income	40,000	40,000	194,930	154,930
Miscellaneous	7,500	7,500	38,551	31,051
Total Revenues	\$ 1,682,242	\$ 1,682,242	\$ 3,572,243	\$ 1,890,001
Expenditures				
Current				
Sanitation				
Solid waste	2,147,242	2,147,242	2,613,206	(465,964)
Net Change in Fund Balance	\$ (465,000)	\$ (465,000)	\$ 959,037	\$ 1,424,037
Fund Balance - January 1	5,459,675	5,459,675	5,459,675	-
Fund Balance - December 31	\$ 4,994,675	\$ 4,994,675	\$ 6,418,712	\$ 1,424,037

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

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

1. Budgetary Information

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

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

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

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

2. Excess of Expenditures Over Budget

The following major governmental funds had expenditures in excess of budget at the function level for the year ended December 31, 2006:

	Expenditures	Final Budget	Excess
General Fund			
Current			
Public safety	\$ 4,580,444	\$ 4,523,159	\$ 57,285
Health	1,758,023	1,650,450	107,573
Conservation of natural resources	564,856	368,091	196,765
Debt service			
Bond issuance costs	13,750	-	13,750

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

2. Excess of Expenditures Over Budget (Continued)

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Road and Bridge Special Revenue Fund			
Current			
Highways and streets	12,049,261	8,660,732	3,388,529
Intergovernmental			
Highways and streets	333,152	-	333,152
Social Services Special Revenue Fund			
Current			
Human services	8,471,226	8,264,876	206,350
Solid Waste Special Revenue Fund			
Current			
Sanitation	2,613,206	2,147,242	465,964

SUPPLEMENTARY INFORMATION

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

NONMAJOR FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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

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

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

AGENCY FUNDS

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

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

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

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

NONMAJOR FUNDS

AGENCY FUNDS
(Continued)

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

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

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

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

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Statement 1

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

	Special Revenue Funds					Total
	County Building	County Parks	County Ditch	Revolving Loan	Forfeited Tax	
Assets						
Cash and pooled investments	\$ 308,201	\$ 125,795	\$ -	\$ 80,538	\$ 32,627	\$ 547,161
Delinquent taxes receivable	2,053	745	-	-	-	2,798
Special assessments receivable						
Delinquent	-	-	148	-	-	148
Deferred	-	-	648	-	-	648
Loans receivable	-	-	-	30,000	-	30,000
Total Assets	\$ 310,254	\$ 126,540	\$ 796	\$ 110,538	\$ 32,627	\$ 580,755
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ -	\$ 4	\$ -	\$ -	\$ -	\$ 4
Due to other governments	-	-	-	-	32,627	32,627
Deferred revenue - unavailable	2,053	745	796	-	-	3,594
Total Liabilities	\$ 2,053	\$ 749	\$ 796	\$ -	\$ 32,627	\$ 36,225
Fund Balances						
Reserved for loans receivable	\$ -	\$ -	\$ -	\$ 30,000	-	\$ 30,000
Unreserved						
Designated for economic development	-	-	-	80,538	-	80,538
Undesignated	308,201	125,791	-	-	-	433,992
Total Fund Balances	\$ 308,201	\$ 125,791	\$ -	\$ 110,538	\$ -	\$ 544,530
Total Liabilities and Fund Balances	\$ 310,254	\$ 126,540	\$ 796	\$ 110,538	\$ 32,627	\$ 580,755

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Statement 2

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

	Special Revenue Funds					Total
	County Building	County Parks	County Ditch	Revolving Loan	Forfeited Tax	
Revenues						
Taxes	\$ 57,640	\$ 33,670	\$ -	\$ -	\$ -	\$ 91,310
Special assessments	-	-	611	-	-	611
Intergovernmental	21,859	6,131	-	-	-	27,990
Miscellaneous	18,608	1,082	-	500	66,815	87,005
Total Revenues	\$ 98,107	\$ 40,883	\$ 611	\$ 500	\$ 66,815	\$ 206,916
Expenditures						
Current						
General government	\$ 92,683	\$ -	\$ -	\$ -	\$ 66,815	\$ 159,498
Culture and recreation	-	19,289	-	-	-	19,289
Conservation of natural resources	-	-	601	-	-	601
Debt service						
Interest	-	-	68	-	-	68
Total Expenditures	\$ 92,683	\$ 19,289	\$ 669	\$ -	\$ 66,815	\$ 179,456
Net Change in Fund Balances	\$ 5,424	\$ 21,594	\$ (58)	\$ 500	\$ -	\$ 27,460
Fund Balances - January 1	302,777	104,197	58	110,038	-	517,070
Fund Balances - December 31	\$ 308,201	\$ 125,791	\$ -	\$ 110,538	\$ -	\$ 544,530

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
COUNTY BUILDING 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>		
Revenues				
Taxes	\$ 58,141	\$ 58,141	\$ 57,640	\$ (501)
Intergovernmental	16,859	16,859	21,859	5,000
Miscellaneous	-	-	18,608	18,608
Total Revenues	\$ 75,000	\$ 75,000	\$ 98,107	\$ 23,107
Expenditures				
Current				
General government	75,000	75,000	92,683	(17,683)
Net Change in Fund Balance	\$ -	\$ -	\$ 5,424	\$ 5,424
Fund Balance - January 1	302,777	302,777	302,777	-
Fund Balance - December 31	\$ 302,777	\$ 302,777	\$ 308,201	\$ 5,424

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
COUNTY PARKS 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>		
Revenues				
Taxes	\$ 21,089	\$ 21,089	\$ 33,670	\$ 12,581
Intergovernmental	6,131	6,131	6,131	-
Miscellaneous	-	-	1,082	1,082
Total Revenues	\$ 27,220	\$ 27,220	\$ 40,883	\$ 13,663
Expenditures				
Current				
Culture and recreation				
Parks	32,220	32,220	19,289	12,931
Net Change in Fund Balance	\$ (5,000)	\$ (5,000)	\$ 21,594	\$ 26,594
Fund Balance - January 1	104,197	104,197	104,197	-
Fund Balance - December 31	\$ 99,197	\$ 99,197	\$ 125,791	\$ 26,594

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Statement 3

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>LOCAL COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 705,739	\$ 352,407	\$ 402,538	\$ 655,608
Departmental cash	1,732	2,855	1,732	2,855
Accrued interest receivable	3,861	-	3,861	-
Total Assets	<u>\$ 711,332</u>	<u>\$ 355,262</u>	<u>\$ 408,131</u>	<u>\$ 658,463</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 711,332</u>	<u>\$ 355,262</u>	<u>\$ 408,131</u>	<u>\$ 658,463</u>
 <u>MOTOR VEHICLE</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 8,468</u>	<u>\$ 231,135</u>	<u>\$ 230,860</u>	<u>\$ 8,743</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 8,468</u>	<u>\$ 231,135</u>	<u>\$ 230,860</u>	<u>\$ 8,743</u>
 <u>SPECIAL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ -</u>	<u>\$ 161,872</u>	<u>\$ 161,872</u>	<u>\$ -</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ -</u>	<u>\$ 161,872</u>	<u>\$ 161,872</u>	<u>\$ -</u>

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

*Statement 3
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 6,745,937	\$ 6,745,937	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 6,745,937	\$ 6,745,937	\$ -
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 85,110	\$ 1,073,895	\$ 1,083,605	\$ 75,400
<u>Liabilities</u>				
Due to other governments	\$ 85,110	\$ 1,073,895	\$ 1,083,605	\$ 75,400
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 339,404	\$ 31,170,275	\$ 31,192,334	\$ 317,345
<u>Liabilities</u>				
Due to other governments	\$ 339,404	\$ 31,170,275	\$ 31,192,334	\$ 317,345

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

*Statement 3
(Continued)*

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 6,937,845	\$ 6,937,614	\$ 231
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 6,937,845	\$ 6,937,614	\$ 231
 <u>MORRISON, TODD, AND WADENA BOARD OF HEALTH</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 649,790	\$ 649,790	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 649,790	\$ 649,790	\$ -
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,138,721	\$ 47,323,156	\$ 47,404,550	\$ 1,057,327
Departmental cash	1,732	2,855	1,732	2,855
Accrued interest receivable	3,861	-	3,861	-
Total Assets	\$ 1,144,314	\$ 47,326,011	\$ 47,410,143	\$ 1,060,182
<u>Liabilities</u>				
Due to other governments	\$ 1,144,314	\$ 47,326,011	\$ 47,410,143	\$ 1,060,182

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OTHER SCHEDULE

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Schedule 7

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

Shared Revenue

State

Highway users tax	\$	2,967,350
County program aid		1,521,199
Market value credit - real property		1,734,371
Market value credit - mobile home		7,393
PERA rate reimbursement		48,267
Disparity reduction aid		29,365
Police aid		82,448
Enhanced 911		112,262
		112,262

Total Shared Revenue **\$ 6,502,655**

Reimbursement for Services

Minnesota Department of Human Services	\$	2,244,094
		2,244,094

Payments

Local

City contributions	\$	38,220
Payments in lieu of taxes		121,722
		121,722

Total Payments **\$ 159,942**

Grants

State

Minnesota Department of		
Corrections	\$	39,325
Health		143,414
Natural Resources		62,521
Human Services		1,628,919
Water and Soil Resources Board		114,576
Office of Environmental Assistance		73,146
Pollution Control Agency		5,339
Peace Officer Standards and Training Board		7,959
		7,959

Total State **\$ 2,075,199**

Federal

Department of		
Agriculture	\$	157,203
Justice		2,500
Labor		5,000
Transportation		1,955,528
Education		1,390
Health and Human Services		966,148
Homeland Security		18,601
Environmental Protection Agency		4,276
Election Assistance Commission		444,000
		444,000

Total Federal **\$ 3,554,646**

Total State and Federal Grants **\$ 5,629,845**

Total Intergovernmental Revenue **\$ 14,536,536**

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Schedule 8

**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 Morrison County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Morrison County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Morrison County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award 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 Morrison County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Highway Planning and Construction	CFDA #20.205
Help America Vote Act Requirements Payments	CFDA #90.401
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Morrison County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-2 Departmental Internal Accounting Control

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

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

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

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

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

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

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

Client's Response:

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

ITEM ARISING THIS YEAR

06-1 Audit Adjustments

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

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

- Reclassification of \$153,677 of federal revenue from state revenue in the Social Services Special Revenue Fund.
- Reclassification of \$43,012 of bond issuance proceeds from miscellaneous revenue in the Debt Service Fund.

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

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

Client's Response:

I am not sure why these got misclassified on the working trial balance. I review these when preparing the working trial balances; I just missed them. The items were accounted for just not in the right line item on the working trial balance. I have made a note for 2007 to make sure to review entries more closely.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

03-1 Administrative Offense Procedures

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

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

At Morrison County, however, deputies decide whether to give motorists a warning, issue a state ticket, or issue a County administrative ticket for violations that are traffic offenses for both state law and County ordinance purposes. If a County administrative ticket is issued, the amount to be paid does not include the surcharges for court costs that would have been included with a state ticket, and Morrison County keeps all the revenue without forwarding any portion to the state. In addition, state traffic violations committed in Morrison County are kept off the state's driving records, leaving them unknown to insurance companies, law enforcement officers in other agencies, and the Minnesota Department of Public Safety. For the year ended December 31, 2006, Morrison County has deposited over \$56,000 into its General Fund from these County administrative civil penalties.

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

The provisions of this chapter shall be applicable and uniform throughout this State and in all political subdivisions and municipalities therein, and no local authority shall enact or enforce any rule or regulation in conflict with the provisions of this chapter unless expressly authorized herein. Local authorities may adopt traffic regulations which are not in conflict with the provisions of this chapter; provided, that when any local ordinance regulating traffic covers the same subject for which a penalty is provided for in this chapter, then the penalty provided for violation of said local ordinance shall be identical with the penalty provided for in this chapter for the same offense.

Since the Morrison County administrative civil penalties are not provided for in Minn. Stat. ch. 169, they violate Minn. Stat. § 169.022. The Minnesota Attorney General went on to comment that law enforcement officers should make law enforcement decisions based on culpability and evidence, not on "the offender's willingness to make a payment directly to the city." The Minnesota Attorney General concluded that, by enacting Minn. Stat. ch. 169, the State has pre-empted the field with respect to these traffic offenses. The Minnesota Attorney General stated, "It is not consistent with State public policy for a public official to direct or urge that city police officers not enforce the law of the State to the best of their judgment and ability." Consequently, cities are not authorized to change the nature of penalties for criminal offenses specified by chapter 169.

Schedule 8
(Continued)

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

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

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

Client’s Response:

Morrison County respectfully disagrees with the State Auditor’s determination that the County’s Administrative Offense Procedures Ordinance violates Minnesota law. County officials, including the County Board, have carefully reviewed the written opinions of the State Auditor and Attorney General, the proposed comment to the 2006 audit, and applicable State law.

The County believes:

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

- (5) *The field of traffic law is not pre-empted by Minn. Stat. § 169. Minn. Stat. § 169.022 specifically states, “Local authorities may adopt traffic regulations which are not in conflict with the provisions of this chapter; provided that when any local ordinance regulating traffic covers the same subject for which a penalty is provided for in this chapter, then the penalty provided for violation of said local ordinance shall be identical with the penalty provided for in this chapter for the same offense.” Had the legislature intended to pre-empt the field of traffic regulation, it would certainly not have specifically allowed local ordinances.*
- (6) *Minn. Stat. § 169.022 does require penalties established by local ordinances be identical to those established by State law. Morrison County adopted a resolution setting penalties for traffic offenses between \$25 and \$60. State law sets the penalty for these same offenses as petty misdemeanors that carry a maximum penalty of \$300. The exact amount of the penalty for each offense is dependent by the uniform fine schedule prepared by the chief judges of the district courts. This fine schedule can be adjusted from year to year and is occasionally adjusted by local courts. As long as the County’s fine schedule is within the petty misdemeanor limit, i.e., \$300 or less, the County has conformed the requirements of Minn. Stat. § 169.022.*
- (7) *Minn. Stat. § 169.99 requires a uniform traffic ticket. This is a procedural, not a substantive, law. A full reading of the statute makes it clear that uniformity is required for the benefit of the court system. Because administrative tickets are not handled by the court system, this statute has no bearing on the form of ticket used by the County.*
- (8) *Morrison County is only one of a number of municipalities that use administrative procedures for minor offenses. The system has proven to be an effective law enforcement tool.*

The County believes that this issue should be resolved by the Legislature. To that end and at the County’s urging, local legislators introduced a bill in the 2005 legislative session to specifically allow local authorities to issue administrative citations. That bill, Senate File 1042, and a bill to prohibit administrative tickets, S.F. 1713, were both heard by the Senate Transportation Committee on

March 31, 2005. Police chiefs and city administrators from around the state, along with representatives from Morrison County, testified at the hearing. The committee approved the bill authorizing administrative tickets and rejected the bill prohibiting them. To the best of our knowledge, no further action was taken by the Legislature.

In the 2007 legislative session there were two bills introduced, one to prohibit and one to allow for administrative tickets. Once again the bill to prohibit did not make it through the committee but the bill to allow did pass out of committee but not in time to get action before the Legislature adjourned. Morrison County will continue to pursue legislative authority for administrative tickets in the coming legislative sessions.

B. 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.

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

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, 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 Morrison County, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2007 and 2008, respectively.



REBECCA OTTO
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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
Morrison County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrison County as of and for the year ended December 31, 2006, and have issued our report thereon dated September 28, 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 Morrison County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-2 and 06-1 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe neither of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

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

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to Morrison County and is reported for that purpose.

Morrison County's written responses to the significant deficiencies and legal compliance findings 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 County Board, management, others within Morrison County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 28, 2007

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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
Morrison County

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrison County as of and for the year ended December 31, 2006, and have issued our report thereon dated September 28, 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 County Board, management and others within the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 28, 2007

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Schedule 9

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 148,586
Passed Through Minnesota Department of Human Services Matching Grants for Food Stamp Program	10.561	8,617
Total U.S. Department of Agriculture		\$ 157,203
U.S. Department of Justice		
Passed through Minnesota Department of Public Safety Enforcing Underage Drinking Laws Program	16.727	\$ 2,500
U.S. Department of Labor		
Passed Through Minnesota Department of Labor and Industry Occupational Safety and Health State Program	17.503	\$ 5,000
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,937,138
Federal Transit Metropolitan Planning Grant	20.505	788
Public Transportation for Non-Urbanized Areas	20.509	1,000
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	14,380
Alcohol Traffic Safety and Drunk Driving Prevention Incentive	20.601	2,222
Total U.S. Department of Transportation		\$ 1,955,528
U.S. Environmental Protection Agency		
Passed Through Minnesota Department of Health State Indoor Radon Grant	66.032	\$ 4,276
U.S. Department of Education		
Passed Through Minnesota Department of Health Special Education Grants for Infants and Families with Disabilities	84.181	\$ 1,390
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State Help America Vote Act Requirements Payments	90.401	\$ 377,978

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Schedule 9
(Continued)

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Cass County		
Center for Disease Control and Prevention - Investigations and Technical Assistance	93.283	\$ 46,092
Temporary Assistance for Needy Families (TANF)	93.558	21,744
Maternal and Child Health Services Block Grant	93.994	42,078
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	5,648
Temporary Assistance for Needy Families (TANF)	93.558	163,703
Child Care and Development Block Grant	93.575	188,008
Child Welfare Services - State Grants	93.645	17,845
Foster Care Title IV-E	93.658	126,645
Social Services Block Grant Title XX	93.667	219,206
Chafee Foster Care Independence Program	93.674	6,081
Block Grants for Community Mental Health Services	93.958	9,980
Block Grants for Prevention and Treatment of Substance Abuse	93.959	119,118
Total U.S. Department of Health and Human Services		\$ 966,148
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
State Domestic Preparedness Equipment Support Program	97.004	\$ 1,776
Homeland Security Grant Program	97.067	12,877
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	3,948
Total U.S. Department of Homeland Security		\$ 18,601
Total Federal Awards		\$ 3,488,624

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Morrison County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are based on the modified accrual basis of accounting. Due to timing differences in revenue recognition under the modified accrual basis, expenditures on this schedule do not match the federal revenues reported in the financial statements. In 2006, \$66,022 of current year federal revenues for CFDA No. 90.401 were not recognized as expenditures because they had not been spent by year-end.
3. During 2006, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.