

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MILLE LACS COUNTY
MILACA, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2008

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

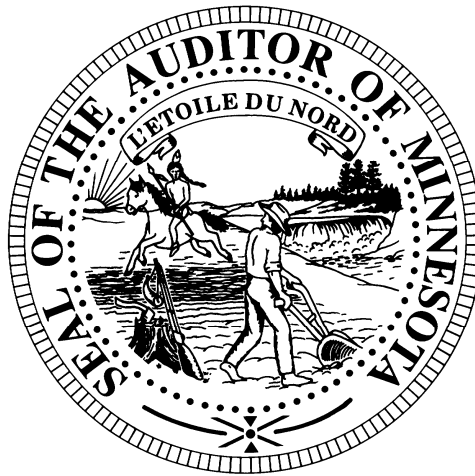
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

For the Year Ended December 31, 2008



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

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

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MILACA, MINNESOTA**

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

**ORGANIZATION
2008**

Office	Name	Term	
		From	To
Commissioners			
1st District	Jack Edmonds	January 2005	January 2009
2nd District	Dave Tellinghuisen	January 2007	January 2011
3rd District	Phil Peterson*	January 2005	January 2009
4th District	Roger Tellinghuisen	January 2007	January 2011
5th District	Frank Courteau	January 2005	January 2009
Officers			
Elected			
Attorney	Janice Kolb	January 2007	January 2011
Auditor/Treasurer	Philip Thompson	January 2007	January 2011
Sheriff	Brent Lindgren	January 2007	January 2011
Appointed			
Assessor	Patricia Stotz	January 2005	December 2008
Coroner	Janice Amatuzio	January 2008	December 2008
County Engineer	Bruce Cochran	May 2007	May 2011
County Recorder	Jennifer LaDuke	January 2007	Indefinite
Probation Officer	Warren Liepitz		Indefinite
Surveyor	Warren Delles	July 2007	Indefinite
Veterans' Service Officer	Ken Olson		Indefinite
IS Director	Michael Virnig		Indefinite
Public Health Director	Janelle Schroder	March 2007	Indefinite
Maintenance	Joe Ahner		Indefinite
Zoning Administrator	Michele McPherson		Indefinite
County Administrator	Roxy Traxler		Indefinite
Family Services			
Board			
Member	Phil Peterson	July 2008	December 2008
Chair	Jack Edmonds	July 2008	December 2008
Secretary	La Von Ziegler	July 2008	December 2008
Member	Roger Tellinghuisen	July 2008	December 2008
Member	Johann Ward	July 2008	December 2008
Vice Chair	Dave Tellinghuisen	July 2008	December 2008
Member	Frank Courteau	July 2008	December 2008
Director	Leo Vos		Indefinite

*Board Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Mille Lacs County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mille Lacs County, Minnesota, as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mille Lacs County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mille Lacs County as of December 31, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4.C. to the financial statements, during the year ended December 31, 2008, the County adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2009, on our consideration of Mille Lacs 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

October 20, 2009

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008
(Unaudited)**

Mille Lacs County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2008. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$64,226,101, of which Mille Lacs County has invested \$46,017,472 in capital assets, net of related debt, and \$2,165,761 is restricted to specific purposes/uses by the County.
- The net cost of Mille Lacs County's governmental activities for the year ended December 31, 2008, was \$12,721,127; the net cost was funded by general revenues and other items totaling \$16,555,321.
- At the close of 2008, Mille Lacs County's governmental funds reported combined ending fund balances of \$24,693,175, an increase of \$9,529,741 from the previous year-end balance. At the end of the year, Mille Lacs County's unreserved fund balance totaled \$21,807,655, which is available for spending at the County Board's discretion.

OVERVIEW OF THE FINANCIAL STATEMENTS

Mille Lacs County's MD&A serves as an introduction to the basic financial statements. The County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) and certain budgetary comparison schedules are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are inter-related.

<p align="center">Management's Discussion and Analysis (Required Supplementary Information)</p>

Government-Wide Financial Statements	Fund Financial Statements
Notes to the Financial Statements	

<p align="center">Required Supplementary Information (Other than Management's Discussion and Analysis)</p>

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

Government-Wide Financial Statements--The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about Mille Lacs County as a whole and about its activities in a way that helps the reader determine whether Mille Lacs County's financial condition has improved or declined as a result of the current year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

These two statements consider all of Mille Lacs County's current year revenues and expenses, regardless of when the County receives the revenue or pays the expenditure, and report the County's net assets and changes in them. You can think of the County's net assets--the difference between assets and liabilities--as one way to measure Mille Lacs County's financial health or financial position. Over time, increases or decreases in the County's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the County's property tax base and the general economic conditions of the state and County, to assess the overall health of Mille Lacs County.

Governmental activities--Mille Lacs County reports its basic services in the "Governmental Activities" column of these reports. The activities reported by the County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, economic development, and interest. Mille Lacs County finances the majority of these activities with local property taxes, state-paid aids, fees, charges for services, and federal and state grants.

Fund Financial Statements

Mille Lacs County's fund financial statements provide detailed information about the significant funds--not the County as a whole. Significant governmental and fiduciary funds may be established by the County to meet requirements of a specific state law, to help control and manage money for a particular purpose/project, or to show that it is meeting specific legal responsibilities and obligations when expending property tax revenues, grants, and/or other funds designated for a specific purpose.

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

Reporting the County's Fiduciary Responsibilities

Mille Lacs County is the trustee, or fiduciary, over assets that can be used only for the trust beneficiaries based on the trust arrangement. The County reports all of its fiduciary activities in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities have been excluded from the County's other financial statements because the County cannot use these assets to finance its operations. Mille Lacs County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE COUNTY AS A WHOLE

The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities.

Table 1
Net Assets

	2008	2007
Current and other assets	\$ 28,250,830	\$ 20,062,833
Capital assets	51,519,767	48,403,627
Total Assets	\$ 79,770,597	\$ 68,466,460
Long-term liabilities outstanding	\$ 14,199,634	\$ 6,167,598
Other liabilities	1,344,862	1,906,955
Total Liabilities	\$ 15,544,496	\$ 8,074,553
Invested in capital assets, net of related debt	\$ 46,017,472	\$ 43,568,627
Restricted	2,165,761	1,734,831
Unrestricted	16,042,868	15,088,449
Total Net Assets	\$ 64,226,101	\$ 60,391,907

Mille Lacs County's total net assets for the year ended December 31, 2008, were \$64,226,101. The governmental activities' unrestricted net assets, totaling \$16,042,868, are available to finance the day-to-day operations of the governmental activities of Mille Lacs County.

Table 2
Changes in Net Assets

	2008	2007
Fees, charges, fines, and other	\$ 3,132,184	\$ 4,003,628
Operating grants and contributions	9,359,354	7,254,825
Capital grants and contributions	540,819	2,815,271
Property taxes	13,245,630	12,172,561
Other	3,309,691	3,764,198
Total Revenues	\$ 29,587,678	\$ 30,010,483

	2008	2007
General government	\$ 5,401,392	\$ 4,515,176
Public safety	6,510,751	6,494,010
Highways and streets	4,238,988	5,868,929
Sanitation	132,343	106,987
Human services	7,952,876	7,816,150
Health	631,081	660,189
Culture and recreation	319,189	239,363
Conservation of natural resources	233,104	191,689
Economic development	20,380	108,577
Interest	313,380	204,170
Total Expenses	<u>\$ 25,753,484</u>	<u>\$ 26,205,240</u>
Increase in Net Assets	\$ 3,834,194	\$ 3,805,243
Net Assets, January 1	<u>60,391,907</u>	<u>56,586,664</u>
Net Assets, December 31	<u><u>\$ 64,226,101</u></u>	<u><u>\$ 60,391,907</u></u>

Governmental Activities

Revenues for Mille Lacs County's governmental activities for the year ended December 31, 2008, were \$29,587,678. The County's cost for all governmental activities for the year ended December 31, 2008, was \$25,753,484. The net assets for the County's governmental activities increased by \$3,834,194 in 2008.

As shown in the Statement of Activities, the amount that Mille Lacs County taxpayers ultimately financed for these governmental activities through local property taxation was \$13,245,630, because \$3,132,184 of the costs were paid by those who directly benefited from the programs, and \$9,900,173 was paid by other governments and organizations that subsidized certain programs with grants and contributions. Mille Lacs County paid for the remaining "public benefit" portion of governmental activities with \$2,300,052 in grants and contributions not restricted to specific programs and \$1,009,639 in other revenues, such as investment income, mortgage registry tax, and state deed tax.

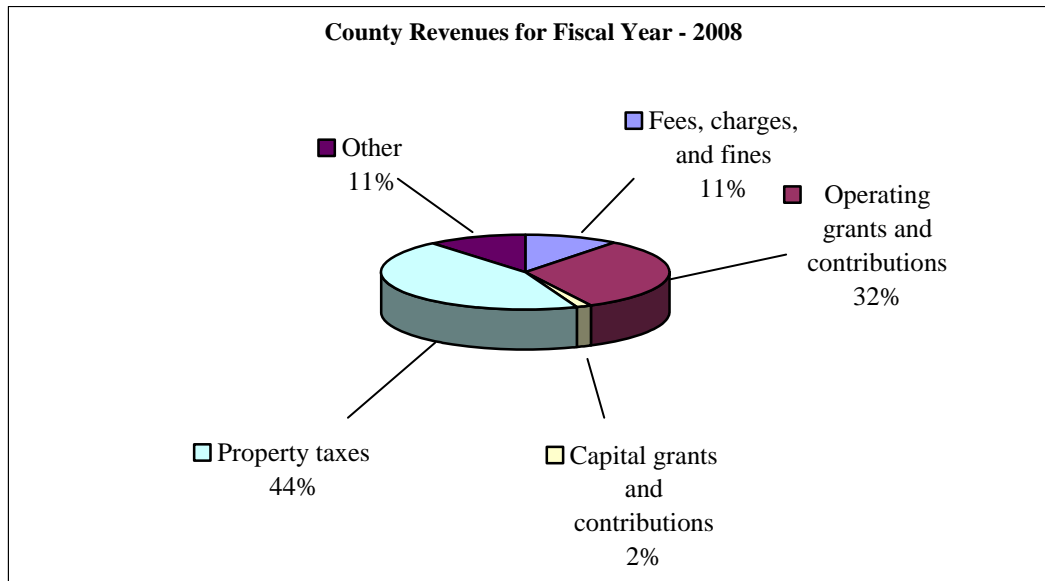
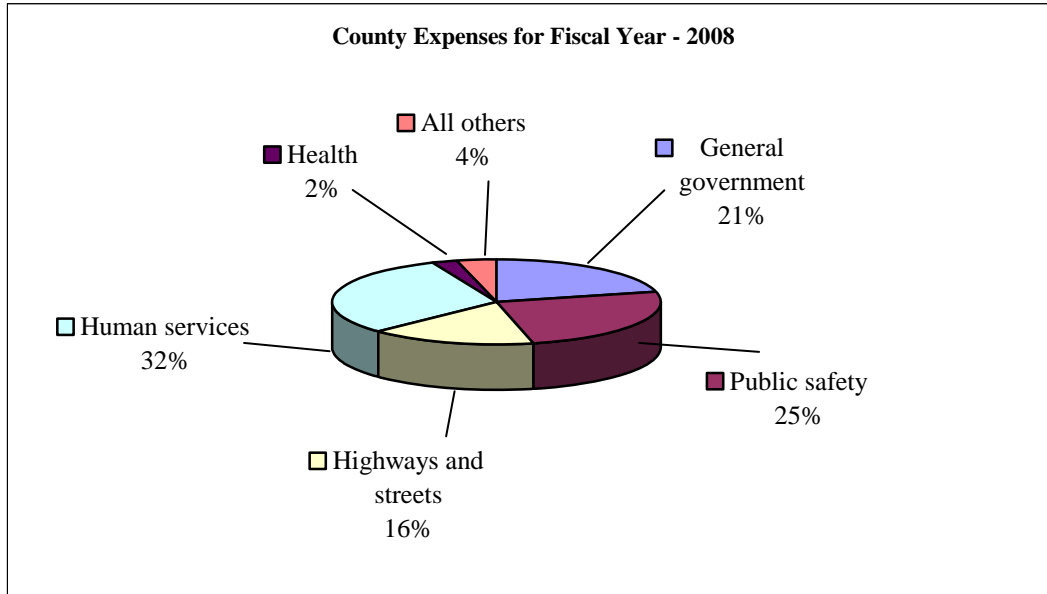


Table 3 presents the cost of each of Mille Lacs County's five largest program functions as well as each function's net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden placed on Mille Lacs County's taxpayers by each of these functions.

Table 3
Governmental Activities

	Total Cost of Services 2008	Net Cost of Services 2008
Program expenses		
General government	\$ 5,401,392	\$ 4,407,991
Public safety	6,510,751	4,517,998
Highways and streets	4,238,988	87,442
Human services	7,952,876	3,237,357
Health	631,081	171,545
All others	1,018,396	298,794
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Total Program Expenses	<u>\$ 25,753,484</u>	<u>\$ 12,721,127</u>



THE COUNTY'S FUNDS

As Mille Lacs County completed the year, its governmental funds, as presented in the balance sheet reported a combined fund balance of \$24,693,175.

General Fund Budgetary Highlights

The Mille Lacs County Board of Commissioners, over the course of a budget year, may amend/revise the County's General Fund budget. During 2008, the County Board of Commissioners made no changes to the budget as originally adopted on December 18, 2007. Budget amendments/revisions fall into one of three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts.

In the General Fund, the actual revenues were above the expected revenues by \$255,228, and actual expenditures were \$1,069,715 less than budgeted expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2008, Mille Lacs County had \$51,519,767 invested in a broad range of capital assets, net of depreciation. This investment in capital assets includes land, land improvements, buildings, highways and streets, and equipment (see Table 4 below).

Table 4
Capital Assets at Year-End
(Net of Depreciation)

	2008	2007
Land	\$ 2,012,962	\$ 1,826,533
Construction in progress	1,645,825	1,472,300
Land improvements	252,949	232,812
Buildings	8,785,582	7,675,695
Machinery and equipment	1,511,326	1,847,861
Infrastructure	37,311,123	35,348,426
Total	<u>\$ 51,519,767</u>	<u>\$ 48,403,627</u>

Debt Administration

At December 31, 2008, Mille Lacs County had \$12,480,000 in bonds and notes outstanding, compared with \$4,835,000 as of December 31, 2007--an increase of 158.1 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

Bonds and Notes Payable	Governmental Activities		Percent Change (%)
	2008	2007	
2005 G.O. Law Enforcement Center Refunding Bonds	\$ 3,310,000	\$ 3,555,000	(6.9)
2007 HRA Lease Revenue Refunding Bonds	1,185,000	1,280,000	(7.4)
2008 G.O. Capital Improvement Bonds	7,985,000	-	N/A
Total	<u>\$ 12,480,000</u>	<u>\$ 4,835,000</u>	158.1

Other long-term obligations include compensated absences and the other postemployment benefits liability. Mille Lacs County's notes to the financial statements provide detailed information about the County's long-term liabilities.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2009 budget and tax rates.

- Major revenue sources for the County are state-paid aids, credits, and grants. The State of Minnesota has indicated that County Program Aid will be cut for 2009 and 2010. The County has reduced expenditures for 2009 and 2010 to reflect these changes.
- Mille Lacs County's annual unemployment rate for 2008 was 9.2 percent. The unemployment rate for the first quarter of 2009 was approximately 15.6 percent. This is significantly above the state-wide and national rates.
- The County Board has directed all departments to review revenue sources and consider cost-effective and efficient means for the delivery of Mille Lacs County programs and services. Core functions and essential services have been and will continue to be reviewed. In 2009, the County consolidated several departments at a significant cost savings.

CONSTRUCTION/BONDING PLANS

Plans were approved for the construction of a new Justice Center. Construction began in the fall of 2008 and will continue through all of 2009, with expected completion in April 2010. The Board authorized a \$7.985 million capital improvement bond to cover the majority of this project. The remainder of the approximately \$10 million project will be (or has been) paid out of the 2008, 2009, and 2010 General Fund budget and reserve.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

Mille Lacs County's financial report provides citizens, taxpayers, customers, investors, and creditors with a general overview of Mille Lacs County's finances and shows the County's accountability for the money it receives and spends. If you have questions about this report, or need additional financial information, contact Roxy Traxler, Mille Lacs County Administrator (320-983-8349), Mille Lacs County Courthouse, 635 - 2nd Street S.E., Milaca, Minnesota 56353.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2008**

Assets

Cash and pooled investments	\$ 24,552,549
Petty cash and change funds	1,400
Departmental cash	22,813
Taxes receivable	
Prior	1,054,272
Special assessments receivable	
Prior	25,943
Accounts receivable	81,013
Accrued interest receivable	146,481
Due from other governments	1,737,372
Inventories	290,878
Advances to other governments	102,436
Deferred charges	235,673
Capital assets	
Non-depreciable	3,658,787
Depreciable - net of accumulated depreciation	<u>47,860,980</u>
Total Assets	<u>\$ 79,770,597</u>

Liabilities

Accounts payable	\$ 502,943
Salaries payable	131,713
Contracts payable	226,390
Due to other governments	230,282
Accrued interest payable	204,906
Unearned revenue	48,628
Long-term liabilities	
Due within one year	409,323
Due in more than one year	<u>13,790,311</u>
Total Liabilities	<u>\$ 15,544,496</u>

Net Assets

Invested in capital assets - net of related debt	\$ 46,017,472
Restricted for	
General government	412,800
Public safety	680,455
Highways and streets	1,065,077
Human services	37
Conservation of natural resources	7,392
Unrestricted	<u>16,042,868</u>
Total Net Assets	<u>\$ 64,226,101</u>

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	
	Expenses				
<u>Functions/Programs</u>					
Governmental activities					
General government	\$ 5,401,392	\$ 830,838	\$ 162,563	\$ -	\$ (4,407,991)
Public safety	6,510,751	1,199,659	793,094	-	(4,517,998)
Highways and streets	4,238,988	87,181	3,523,546	540,819	(87,442)
Sanitation	132,343	113,433	-	-	(18,910)
Human services	7,952,876	729,677	3,985,842	-	(3,237,357)
Health	631,081	150,223	309,313	-	(171,545)
Culture and recreation	319,189	-	569,546	-	250,357
Conservation of natural resources	233,104	7,472	15,450	-	(210,182)
Economic development	20,380	13,701	-	-	(6,679)
Interest	313,380	-	-	-	(313,380)
Total Governmental Activities	\$ 25,753,484	\$ 3,132,184	\$ 9,359,354	\$ 540,819	\$ (12,721,127)
General Revenues					
Property taxes				\$ 13,245,630	
Gravel tax				22,675	
Mortgage registry and deed tax				58,847	
Payments in lieu of tax				169,601	
Grants and contributions not restricted to specific programs				2,300,052	
Unrestricted investment earnings				608,402	
Miscellaneous				102,739	
Gain on sale of capital assets				47,375	
Total general revenues				\$ 16,555,321	
Change in net assets				\$ 3,834,194	
Net Assets - January 1				60,391,907	
Net Assets - December 31				\$ 64,226,101	

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

	<u>General</u>	<u>Road and Bridge</u>
<u>Assets</u>		
Cash and pooled investments	\$ 8,827,632	\$ 1,961,919
Petty cash and change funds	1,350	-
Departmental cash	22,813	-
Taxes receivable		
Prior	648,149	93,144
Special assessments		
Prior	25,943	-
Accounts receivable	72,883	5,324
Accrued interest receivable	146,481	-
Due from other funds	24,759	-
Due from other governments	193,152	1,146,184
Inventories	-	290,878
Advances to other funds	12,800	-
Advances to other governments	-	-
	<hr/>	<hr/>
Total Assets	<u>\$ 9,975,962</u>	<u>\$ 3,497,449</u>
 <u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 124,675	\$ 67,238
Salaries payable	72,285	22,668
Contracts payable	-	59,073
Due to other funds	-	574
Due to other governments	81,816	2,397
Deferred revenue - unavailable	719,968	1,201,187
Deferred revenue - unearned	48,628	-
Advances from other funds	-	-
	<hr/>	<hr/>
Total Liabilities	<u>\$ 1,047,372</u>	<u>\$ 1,353,137</u>

EXHIBIT 3

Family Services	Debt Service	Capital Projects	Nonmajor Funds	Total
\$ 6,256,540	\$ 289,302	\$ 7,100,214	\$ 116,942	\$ 24,552,549
50	-	-	-	1,400
-	-	-	-	22,813
269,488	43,491	-	-	1,054,272
-	-	-	-	25,943
1,000	-	-	1,806	81,013
-	-	-	-	146,481
-	-	-	-	24,759
398,036	-	-	-	1,737,372
-	-	-	-	290,878
-	-	-	-	12,800
102,436	-	-	-	102,436
\$ 7,027,550	\$ 332,793	\$ 7,100,214	\$ 118,748	\$ 28,052,716
\$ 275,050	\$ -	\$ 35,590	\$ 390	\$ 502,943
35,113	-	-	1,647	131,713
-	-	167,317	-	226,390
24,150	-	-	35	24,759
146,055	-	-	14	230,282
224,002	36,869	-	-	2,182,026
-	-	-	-	48,628
-	-	-	12,800	12,800
\$ 704,370	\$ 36,869	\$ 202,907	\$ 14,886	\$ 3,359,541

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

	<u>General</u>	<u>Road and Bridge</u>
<u>Liabilities and Fund Balances</u>		
(Continued)		
Fund Balances		
Reserved for		
Encumbrances	\$ -	\$ -
Inventories	-	290,878
Advances to other funds	12,800	-
Advances to other governments	-	-
Law library	51,498	-
Recorder's equipment purchases	308,904	-
Enhanced 911	232,092	-
DARE	50,820	-
Drug and alcohol contingency	15,738	-
DWI assessments	67,586	-
DWI forfeiture	17,683	-
Drug forfeiture	19,362	-
Fleeing an officer	4,770	-
Permit to carry	34,385	-
Prisoner account	233,601	-
Attorney - forfeited property	46,715	-
Gravel pit restoration	7,392	-
Donations - general government	5,683	-
Donations - public safety	4,418	-
Donations - human services	-	-
Unreserved		
Designated for capital equipment	-	-
Designated for debt service	-	-
Designated for working capital cash flows	5,201,352	549,126
Designated for petty cash and change funds	1,350	-
Designated for land office equipment	321,007	-
Designated for records system	87,040	-
Undesignated	2,204,394	1,304,308
Unreserved, reported in nonmajor		
Special revenue funds	-	-
Total Fund Balances	\$ 8,928,590	\$ 2,144,312
Total Liabilities and Fund Balances	\$ 9,975,962	\$ 3,497,449

EXHIBIT 3
(Continued)

<u>Family Services</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ -	\$ -	\$ 1,378,722	\$ -	\$ 1,378,722
-	-	-	-	290,878
-	-	-	-	12,800
102,436	-	-	-	102,436
-	-	-	-	51,498
-	-	-	-	308,904
-	-	-	-	232,092
-	-	-	-	50,820
-	-	-	-	15,738
-	-	-	-	67,586
-	-	-	-	17,683
-	-	-	-	19,362
-	-	-	-	4,770
-	-	-	-	34,385
-	-	-	-	233,601
-	-	-	-	46,715
-	-	-	-	7,392
-	-	-	-	5,683
-	-	-	-	4,418
37	-	-	-	37
-	-	51,641	-	51,641
-	295,924	-	-	295,924
1,809,475	-	-	-	7,559,953
50	-	-	-	1,400
-	-	-	-	321,007
-	-	-	-	87,040
4,411,182	-	5,466,944	-	13,386,828
-	-	-	103,862	103,862
<u>\$ 6,323,180</u>	<u>\$ 295,924</u>	<u>\$ 6,897,307</u>	<u>\$ 103,862</u>	<u>\$ 24,693,175</u>
<u>\$ 7,027,550</u>	<u>\$ 332,793</u>	<u>\$ 7,100,214</u>	<u>\$ 118,748</u>	<u>\$ 28,052,716</u>

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

Fund balances - total governmental funds (Exhibit 3)	\$ 24,693,175
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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.	51,519,767
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Deferred charges are not available to pay current expenditures and, therefore, are not reported in the governmental funds.	235,673
----------------------------------------------------------------------------------------------------------------------------	---------

Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.	2,182,026
-------------------------------------------------------------------------------------------------------------------------------------	-----------

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	\$ (11,295,000)	
Lease revenue refunding bonds	(1,185,000)	
Unamortized premium on bonds	(95,557)	
Unamortized discount on bonds	30,882	
Compensated absences	(1,512,255)	
OPEB liability	<u>(142,704)</u>	(14,199,634)

Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the governmental funds.	<u>(204,906)</u>
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Net Assets of Governmental Activities (Exhibit 1)	<u>\$ 64,226,101</u>
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**MILLE LACS COUNTY
MILACA, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>General</u>	<u>Road and Bridge</u>
Revenues		
Taxes	\$ 8,450,193	\$ 896,101
Special assessments	113,433	-
Licenses and permits	241,809	8,043
Intergovernmental	3,062,472	5,806,230
Charges for services	1,580,761	65,684
Fines and forfeits	95,745	-
Gifts and contributions	26,682	-
Investment earnings	415,283	-
Miscellaneous	419,208	13,454
	<hr/>	<hr/>
Total Revenues	\$ 14,405,586	\$ 6,789,512
	<hr/>	<hr/>
Expenditures		
Current		
General government	\$ 4,930,886	\$ -
Public safety	6,399,298	-
Highways and streets	-	5,847,932
Sanitation	132,343	-
Human services	-	-
Health	519,332	-
Culture and recreation	68,911	-
Conservation of natural resources	220,961	-
Economic development	20,380	-
Intergovernmental		
Highways and streets	-	155,165
Culture and recreation	250,278	-
Capital outlay		
General government	518,916	-
Public safety	4,157	-
Debt service		
Principal	-	-
Interest	-	-
Bond issuance costs	16,781	-
Administrative (fiscal) charges	1,400	-
	<hr/>	<hr/>
Total Expenditures	\$ 13,083,643	\$ 6,003,097
	<hr/>	<hr/>
Excess of Revenues Over (Under)		
Expenditures	\$ 1,321,943	\$ 786,415
	<hr/>	<hr/>

EXHIBIT 5

Family Services	Debt Service	Capital Projects	Nonmajor Funds	Total
\$ 3,293,141	\$ 477,890	\$ -	\$ -	\$ 13,117,325
-	-	-	7,472	120,905
-	-	-	-	249,852
4,503,879	43,231	-	128,280	13,544,092
416,950	-	-	13,920	2,077,315
-	-	-	-	95,745
6,780	-	-	-	33,462
-	-	47,574	-	462,857
312,496	-	360	1,887	747,405
\$ 8,533,246	\$ 521,121	\$ 47,934	\$ 151,559	\$ 30,448,958
\$ -	\$ -	\$ -	\$ -	\$ 4,930,886
-	-	-	-	6,399,298
-	-	-	-	5,847,932
-	-	-	-	132,343
7,913,155	-	-	-	7,913,155
-	-	-	123,303	642,635
-	-	-	-	68,911
-	-	-	13,088	234,049
-	-	-	-	20,380
-	-	-	-	155,165
-	-	-	-	250,278
-	-	1,217,901	-	1,736,817
-	-	-	-	4,157
-	340,000	-	-	340,000
-	167,751	-	-	167,751
-	-	188,194	-	204,975
-	-	-	-	1,400
\$ 7,913,155	\$ 507,751	\$ 1,406,095	\$ 136,391	\$ 29,050,132
\$ 620,091	\$ 13,370	\$ (1,358,161)	\$ 15,168	\$ 1,398,826

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>General</u>	<u>Road and Bridge</u>
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ -
Transfers out	(118,720)	-
Bonds issued	-	-
Premium on bonds issued	-	-
Proceeds from sale of capital assets	47,375	-
	<u>47,375</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>\$ (71,345)</u>	<u>\$ -</u>
Net Change in Fund Balance	\$ 1,250,598	\$ 786,415
Fund Balance - January 1	7,677,992	1,359,464
Increase (decrease) in reserved for inventories	<u>-</u>	<u>(1,567)</u>
Fund Balance - December 31	<u>\$ 8,928,590</u>	<u>\$ 2,144,312</u>

EXHIBIT 5
(Continued)

Family Services	Debt Service	Capital Projects	Nonmajor Funds	Total
\$ -	\$ -	\$ 118,720	\$ -	\$ 118,720
-	-	-	-	(118,720)
-	-	7,985,000	-	7,985,000
-	-	100,107	-	100,107
-	-	-	-	47,375
\$ -	\$ -	\$ 8,203,827	\$ -	\$ 8,132,482
\$ 620,091	\$ 13,370	\$ 6,845,666	\$ 15,168	\$ 9,531,308
5,703,089	282,554	51,641	88,694	15,163,434
-	-	-	-	(1,567)
\$ 6,323,180	\$ 295,924	\$ 6,897,307	\$ 103,862	\$ 24,693,175

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

Net change in fund balance - total governmental funds (Exhibit 5) **\$ 9,531,308**

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 or decrease in revenue deferred as unavailable.

Deferred revenue - December 31	\$ 2,182,026	
Deferred revenue - January 1	<u>(3,020,681)</u>	(838,655)

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

Expenditures for general capital assets and infrastructure	\$ 5,018,439	
Net book value of assets sold	(67,819)	
Current year depreciation	<u>(1,834,480)</u>	3,116,140

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

Proceeds of new debt		
Bonds issued	\$ (7,985,000)	
Premium on bonds issued	(100,107)	
Issuance costs on bonds issued	<u>204,975</u>	(7,880,132)

Principal repayments		
General obligation bonds	\$ 245,000	
Lease revenue bonds	<u>95,000</u>	340,000

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

Change in accrued interest payable	\$ (133,018)	
Change in compensated absences	(145,967)	
Change in OPEB liability	(142,704)	
Change in inventories	(1,567)	
Current year amortization of issuance costs, discounts, and premiums	<u>(11,211)</u>	(434,467)

Change in Net Assets of Governmental Activities (Exhibit 2) **\$ 3,834,194**

FIDUCIARY FUNDS

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2008**

	Private-Purpose Trust	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 129,844	\$ 801,808
Accrued interest receivable	119	-
Total Assets	\$ 129,963	\$ 801,808
<u>Liabilities</u>		
Due to other governments	\$ -	\$ 801,808
<u>Net Assets</u>		
Net assets, restricted for other purposes	\$ 129,963	

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

<u>Additions</u>	
Investment income	\$ 1,046
Miscellaneous	<u>6,200</u>
Total Additions	\$ 7,246
<u>Deductions</u>	
Payments in accordance with trust agreements	<u>-</u>
Change in net assets	\$ 7,246
Net Assets - January 1	<u>122,717</u>
Net Assets - December 31	<u><u>\$ 129,963</u></u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008**

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, 2008. 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

Mille Lacs County was established May 23, 1857, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Administrator, who is an appointed officer, serves as the Clerk of the Board of Commissioners but does not vote in its decisions.

For financial reporting purposes, Mille Lacs County has included all funds, organizations, account groups, agencies, boards, commissions, and authorities, and has considered all potential component units for which the County is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause Mille Lacs County's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the County to impose its will on that organization; or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the County.

As required by accounting principles generally accepted in the United States of America, these financial statements present Mille Lacs County (the primary government) and its component unit for which the County is financially accountable.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Blended Component Unit

The Mille Lacs County Housing and Redevelopment Authority (HRA), a blended component unit of Mille Lacs County, is governed by a five-member Board consisting of the Mille Lacs County Board of Commissioners and has the power to levy taxes, issue bonds, and enter into contracts. The HRA was established to assist with the implementation of a redevelopment plan to promote economic development within Mille Lacs County. Although it is legally separate from the County, the activity of the HRA is included in the Mille Lacs County reporting entity as the Housing and Redevelopment Authority Special Revenue Fund because the HRA's governing body is the same as the governing body of Mille Lacs County. Separate financial statements are not available for the Mille Lacs County HRA.

Joint Ventures

The County participates in several joint ventures described in Note 5.C.

B. Basic Financial Statements

1. Government-Wide Statements

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

In the government-wide statement of net assets, the governmental activities column is presented: (a) 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.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those 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 Family Services Special Revenue Fund is used to account for economic assistance and community social services programs.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, principal, interest, and related costs of general long-term debt.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Capital Projects Fund is used to account for the financial resources to be used for capital acquisition, construction, or improvement of capital assets, exclusive of infrastructure (roads, bridges, etc.).

Additionally, the County reports the following fund types:

The Private-Purpose Trust Fund accounts for funds that the County Auditor/Treasurer is holding for the cemetery, missing heirs, and Court Administrator.

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

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. 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. Mille Lacs 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.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2008, 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 2008 were \$415,283.

Mille Lacs 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

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

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

Property taxes are levied as of January 1 on property values assessed as of January 1 of the previous year. 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.

3. Inventories

All inventories are valued at cost using the first in/first out (FIFO) method. 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, 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 two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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.

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>
Land improvements	20 - 35
Buildings	25 - 40
Machinery and equipment	3 - 15
Infrastructure	15 - 70

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

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.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Fund Equity

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations

The following funds had expenditures in excess of budget at the function level for the year ended December 31, 2008.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund			
Current			
Sanitation	\$ 132,343	\$ 106,453	\$ 25,890
Culture and recreation	68,911	9,000	59,911
Conservation of natural resources	220,961	206,039	14,922
Capital outlay			
Public safety	4,157	-	4,157
Debt service	18,181	-	18,181

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 24,552,549
Petty cash and change funds	1,400
Departmental cash	22,813
Statement of fiduciary net assets	
Cash and pooled investments	
Private-purpose trust	129,844
Agency funds	801,808
	<hr/>
Total Cash and Investments	\$ 25,508,414
	<hr/>

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 at the close of the financial institution's banking day, not covered by insurance or bonds.

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk other than complying with the requirements of Minnesota statutes. As of December 31, 2008, 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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

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 does not have a policy regarding interest rate risk.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2008, 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. It is the County's policy that U.S. Treasury securities, U.S. agency securities, and obligations backed by U.S. Treasury and/or U.S. agency securities, may be held without limit.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's deposit and investment balances at December 31, 2008, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	57.8%	N/A	\$ 11,285,739
Negotiable certificates of deposit	N/A	N/A	42.2%	Various	8,245,000
Total investments					\$ 19,530,739
Deposits					5,953,462
Petty cash and change funds					1,400
Departmental cash					22,813
Total Cash and Investments					\$ 25,508,414

N/A - Not Applicable

N/R - Not Rated

2. Receivables

Property Taxes and Special Assessments

Property taxes and special assessments which remain unpaid at December 31 are delinquent. No allowance for uncollectible taxes/special assessments has been provided because such amounts are not expected to be material.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,826,533	\$ 214,132	\$ 27,703	\$ 2,012,962
Construction in progress	1,472,300	1,654,388	1,480,863	1,645,825
Total capital assets not depreciated	\$ 3,298,833	\$ 1,868,520	\$ 1,508,566	\$ 3,658,787
Capital assets depreciated				
Land improvements	\$ 508,557	\$ 41,338	\$ -	\$ 549,895
Buildings	11,218,410	1,480,863	152,250	12,547,023
Machinery and equipment	6,312,572	142,650	268,079	6,187,143
Infrastructure	47,195,550	2,965,931	-	50,161,481
Total capital assets depreciated	\$ 65,235,089	\$ 4,630,782	\$ 420,329	\$ 69,445,542
Less: accumulated depreciation for				
Land improvements	\$ 275,745	\$ 21,201	\$ -	\$ 296,946
Buildings	3,542,715	332,777	114,051	3,761,441
Machinery and equipment	4,464,711	477,268	266,162	4,675,817
Infrastructure	11,847,124	1,003,234	-	12,850,358
Total accumulated depreciation	\$ 20,130,295	\$ 1,834,480	\$ 380,213	\$ 21,584,562
Total capital assets depreciated, net	\$ 45,104,794	\$ 2,796,302	\$ 40,116	\$ 47,860,980
Governmental Activities Capital Assets, Net	<u>\$ 48,403,627</u>	<u>\$ 4,664,822</u>	<u>\$ 1,548,682</u>	<u>\$ 51,519,767</u>

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

Governmental Activities	
General government	\$ 440,600
Public safety	113,267
Highways and streets, including depreciation of infrastructure assets	1,270,906
Human services	9,707
Total Depreciation Expense - Governmental Activities	<u>\$ 1,834,480</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2008, was as follows:

1. Due To/From Other Funds

	<u>Receivable</u>	<u>Payable</u>
Major governmental funds		
General Fund	\$ 24,759	\$ -
Road and Bridge Special Revenue Fund	-	574
Family Services Special Revenue Fund	-	24,150
Nonmajor governmental funds		
Community Health Services Special Revenue Fund	-	35
	<u>-</u>	<u>35</u>
Total Due To/From Other Funds	<u>\$ 24,759</u>	<u>\$ 24,759</u>

The interfund balances above represent fourth quarter 2008 postage and long-distance phone charges for the Family Services Special Revenue Fund and the fourth quarter long-distance charge for the Road and Bridge Special Revenue Fund.

2. Advance From/To Other Funds

The General Fund advanced the Ditch Special Revenue Fund \$12,800 for cash flow purposes.

3. Transfers

The General Fund transferred \$118,720 to the Capital Projects Fund to help fund the Justice Center project.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2008, were as follows:

	Governmental Activities	Fiduciary Funds
Accounts	\$ 502,943	\$ -
Salaries	131,713	-
Contracts	226,390	-
Due to other governments	230,282	801,808
Total Payables	<u>\$ 1,091,328</u>	<u>\$ 801,808</u>

2. Deferred Revenue

Deferred revenue consists of taxes and special assessments receivable, state and federal grants that are 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, 2008, is summarized below by fund:

	Taxes	Special Assessments	Grants and Highway Allotments	Other	Total
Major governmental funds					
General	\$ 535,717	\$ 24,133	\$ 48,628	\$ 160,118	\$ 768,596
Special Revenue					
Road and Bridge	80,605	-	1,115,692	4,890	1,201,187
Family Services	224,002	-	-	-	224,002
Debt Service	36,869	-	-	-	36,869
Total	<u>\$ 877,193</u>	<u>\$ 24,133</u>	<u>\$ 1,164,320</u>	<u>\$ 165,008</u>	<u>\$ 2,230,654</u>
Deferred revenue					
Unavailable	\$ 877,193	\$ 24,133	\$ 1,115,692	\$ 165,008	\$ 2,182,026
Unearned	-	-	48,628	-	48,628
Total	<u>\$ 877,193</u>	<u>\$ 24,133</u>	<u>\$ 1,164,320</u>	<u>\$ 165,008</u>	<u>\$ 2,230,654</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2008
2005 G.O. Law Enforcement Center Refunding Bonds	02/01/2019	\$245,000 - \$365,000	2.35 - 4.00	\$ 3,555,000	\$ 3,310,000
2007 HRA Lease Revenue Refunding Bonds	02/01/2019	\$85,000 - \$130,000	4.00 - 4.40	1,280,000	1,185,000
2008 G.O. Capital Improvement Bonds	02/01/2029	\$140,000 - \$575,000	4.10 - 4.40	7,985,000	7,985,000
Total				<u>\$ 12,820,000</u>	<u>\$ 12,480,000</u>

4. Debt Service Requirements

Debt service requirements at December 31, 2008, were as follows:

Year Ending December 31	General Obligation Bonds		Lease Revenue Bonds	
	Principal	Interest	Principal	Interest
2009	\$ 250,000	\$ 438,483	\$ 85,000	\$ 48,465
2010	400,000	432,608	90,000	44,965
2011	560,000	416,206	95,000	41,265
2012	580,000	395,690	95,000	37,346
2013	595,000	374,073	105,000	33,096
2014 - 2018	3,335,000	1,505,258	585,000	94,033
2019 - 2023	2,450,000	893,953	130,000	2,860
2024 - 2028	2,550,000	406,573	-	-
2029 - 2033	575,000	12,650	-	-
Total	<u>\$ 11,295,000</u>	<u>\$ 4,875,494</u>	<u>\$ 1,185,000</u>	<u>\$ 302,030</u>

Year Ending December 31	Total	
	Principal	Interest
2009	\$ 335,000	\$ 486,948
2010	490,000	477,573
2011	655,000	457,471
2012	675,000	433,036
2013	700,000	407,169
2014 - 2018	3,920,000	1,599,291
2019 - 2023	2,580,000	896,813
2024 - 2028	2,550,000	406,573
2029 - 2033	575,000	12,650
Total	<u>\$ 12,480,000</u>	<u>\$ 5,177,524</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

In 2008, the County issued \$7,985,000 G.O. Capital Improvement Bonds. The first interest payment will be made in 2009, and the first principal payment will be made in 2010.

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 3,555,000	\$ 7,985,000	\$ 245,000	\$ 11,295,000	\$ 250,000
Lease revenue bonds	1,280,000	-	95,000	1,185,000	85,000
Compensated absences	1,366,288	145,967	-	1,512,255	74,323
Adds: premium on bonds	-	100,107	4,550	95,557	-
Less: discounts on bonds	(33,690)	-	(2,807)	(30,883)	-
OPEB liability	-	142,704	-	142,704	-
Long-Term Liabilities	<u>\$ 6,167,598</u>	<u>\$ 8,373,778</u>	<u>\$ 341,743</u>	<u>\$ 14,199,633</u>	<u>\$ 409,323</u>

D. Contract Commitments

The County has entered into contract commitments for the Justice Center project, which has not been completed as of December 31, 2008. The amount to be completed on these contracts is \$1,378,722.

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Mille Lacs County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

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

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

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

For all Public Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the 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.

Funding Policy

Pension benefits are funded from member and employer contributions and income from 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 6.00 percent, respectively, of their annual covered salary in 2008. Public Employees Police and Fire Fund members were required to contribute 8.60 percent of their annual covered salary in 2008. That rate increased to 9.40 percent in 2009. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

	<u>2008</u>	<u>2009</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.50	6.75
Public Employees Police and Fire Fund	12.90	14.10
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>Public Employees Retirement Fund</u>	<u>Public Employees Police and Fire Fund</u>	<u>Public Employees Correctional Fund</u>
2008	\$ 476,247	\$ 167,445	\$ 153,231
2007	442,545	142,722	147,167
2006	399,787	107,353	132,936

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

B. Defined Contribution Plan

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives two percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2008, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 998	\$ 998
Percentage of covered payroll	5%	5%

Required contribution rates were five percent.

C. Other Postemployment Benefits

Plan Description

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

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Mille Lacs County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the healthcare plan at the same rate as County employees.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits

Funding Policy (Continued)

This results in the retirees receiving an implicit rate subsidy. For fiscal year 2008, the County contributed \$32,772 to the plan; there were 213 participants in the plan.

Annual OPEB Cost and Net OPEB Obligation

The County's annual other postemployment benefits (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that is paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	\$ 175,476
Interest on net OPEB obligation	-
Adjustment to ARC	-
	<hr/>
Annual OPEB Cost (Expense)	\$ 175,476
Contributions made - Indirect Implicit Subsidy	<hr/> (32,772)
	<hr/>
Increase in Net OPEB Obligation	\$ 142,704
Net OPEB Obligation - Beginning	<hr/> -
	<hr/>
Net OPEB Obligation - Ending	<hr/> \$ 142,704

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2008	\$ 175,476	18.7%	\$ 142,704

Funding Status and Funding Progress

As of January 1, 2008, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial liability for benefits was \$1,080,490, and the actuarial valuation of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,080,490. The covered payroll (annual payroll of active employees covered by the plan) was \$9,497,190, and the ratio of the UAAL to the covered payroll was 11.4 percent.

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of the benefit cost between the employer and plan members to that point.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits

Actuarial Methods and Assumptions (Continued)

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2008, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of administrative expenses), which is Mille Lacs County's implicit rate of return on the General Fund. An annual healthcare cost trend rate of 9.0 percent initially reduced by the decrements to an ultimate rate of 5.0 percent after nine years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was set equal to the market value of assets. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2008, was 29 years.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three 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 \$410,000 per claim in 2008 and \$430,000 per claim in 2009. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

B. Contingent Liabilities

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

The County, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the County.

C. Joint Ventures

East Central Solid Waste Commission

The East Central Solid Waste Commission was established in March 1988 by a joint powers agreement among Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to conduct a solid waste management program on behalf of the participating counties. The Commission is an organized joint venture having the powers, duties, and privileges granted joint powers by Minn. Stat. § 471.59. The Commission comprises five members--one voting member from each County. At its annual meeting, the Board of County Commissioners of each county chooses a member and an alternate, both County Commissioners, as representatives of the County. Each county has one voting member and, in the absence of the voting member, the alternate votes.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

East Central Solid Waste Commission (Continued)

Each county's proportionate share of the total operating costs is based on the most recent census data available and is to be adjusted upon the admission of additional counties or the withdrawal of counties. The Commission will remain in existence so long as two or more counties remain as parties to the agreement or until January 1, 2008. Upon dissolution of the Commission, there will be an accounting to determine assets and liabilities. The assets of the Commission will be liquidated and, after payment of liabilities, the proceeds will be distributed to the counties based on their respective ratios set by the most recent census data.

Each county's share of the Commission's assets, liabilities, and equities cannot be accurately determined since it will fluctuate with census data rather than ownership interest. Following is a summary of the financial information as of and for the year ended December 31, 2007 (most recent figures available):

Total Assets	\$ 12,795,105
Total Liabilities	<u>2,547,700</u>
Total Net Assets	<u><u>\$ 10,247,405</u></u>
Operating and nonoperating revenues	\$ 4,652,113
Operating and nonoperating expenses	<u>4,089,202</u>
Change in Net Assets	<u><u>\$ 562,911</u></u>

Complete financial statements of the East Central Solid Waste Commission can be obtained from:

East Central Solid Waste Commission
1756 - 180th Avenue
Mora, Minnesota 55051

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

East Central Regional Library

The East Central Regional Library was established by a joint powers agreement among Aitkin, Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to provide an efficient and improved regional public library service. The Library Board comprises 18 members--one County Board member and two appointees from each member County. Mille Lacs County's contribution for 2008 was \$250,278.

Complete financial statements of the East Central Regional Library can be obtained from:

East Central Regional Library
244 South Birch
Cambridge, Minnesota 55008

Snake River Watershed Management Board

The Snake River Watershed Management Board (SRWMB) was established in April 1993, pursuant to Minn. Stat. § 471.59, as a joint powers entity. Its purpose is to coordinate the member counties' water plans and to develop objectives to promote sound hydrologic management of the water and the related land resources. Members are Aitkin, Kanabec, Mille Lacs, and Pine Counties. Financial responsibility exists because once the SRWMB has established a budget and determined which projects will be undertaken, each member county is required by the agreement to provide appropriate financial support. The SRWMB establishes an annual budget, and participation in the administrative costs is as follows:

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

Complete financial statements of the SRWMB can be obtained from:

Snake River Watershed Management Board
Rural Route 3, Box 253
Mora, Minnesota 55051

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REQUIRED SUPPLEMENTARY INFORMATION

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 9,132,236	\$ 8,395,473	\$ 8,450,193	\$ 54,720
Special assessments	88,000	88,000	113,433	25,433
Licenses and permits	374,340	374,340	241,809	(132,531)
Intergovernmental	2,141,763	2,878,526	3,062,472	183,946
Charges for services	1,881,631	1,881,631	1,580,761	(300,870)
Fines and forfeits	41,938	41,938	95,745	53,807
Gifts and contributions	12,000	12,000	26,682	14,682
Investment earnings	315,000	315,000	415,283	100,283
Miscellaneous	163,450	163,450	419,208	255,758
Total Revenues	\$ 14,150,358	\$ 14,150,358	\$ 14,405,586	\$ 255,228
Expenditures				
Current				
General government				
Commissioners	\$ 196,804	\$ 196,804	\$ 197,660	\$ (856)
Courts administrator	36,000	36,000	51,553	(15,553)
Law library	41,938	41,938	34,943	6,995
County administrator	204,672	204,672	214,661	(9,989)
Auditor/treasurer	430,487	430,487	412,551	17,936
Auditing	40,000	40,000	43,892	(3,892)
General administration	1,212,552	953,094	543,062	410,032
Information services	171,273	171,273	172,645	(1,372)
Data processing	83,500	83,500	68,252	15,248
Elections	37,700	37,700	32,343	5,357
County attorney	1,048,873	1,048,873	1,085,466	(36,593)
Victim emergency grant	60,570	60,570	59,869	701
Assessor	426,998	426,998	391,968	35,030
County recorder	287,509	287,509	281,078	6,431
Recorder's equipment account	119,000	119,000	1,364	117,636
Surveyor	171,356	171,356	45,465	125,891
Zoning and environmental services	693,193	693,193	544,497	148,696
Building maintenance	604,267	604,267	584,761	19,506
Veterans services	157,522	157,522	154,527	2,995
Other general government	-	-	10,329	(10,329)
Total general government	\$ 6,024,214	\$ 5,764,756	\$ 4,930,886	\$ 833,870

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,953,051	\$ 1,953,051	\$ 1,909,155	\$ 43,896
Court security	350,476	350,476	349,420	1,056
Drug and alcohol contingency	-	-	500	(500)
Boat and water safety	64,637	64,637	85,867	(21,230)
Snowmobile safety enforcement	3,500	3,500	449	3,051
DARE program	4,000	4,000	1,273	2,727
Hooked on fishing account	1,500	1,500	3,323	(1,823)
Deputy reserve account	500	500	1,049	(549)
DWI forfeiture	-	-	25,775	(25,775)
Drug forfeiture	-	-	6,102	(6,102)
Fleeing an officer forfeiture	-	-	240	(240)
Records system	-	-	10,116	(10,116)
Permit to carry	1,000	1,000	12,154	(11,154)
Coroner	70,376	70,376	70,106	270
County jail	3,186,479	3,186,479	2,822,044	364,435
Prisoner account	84,000	84,000	139,679	(55,679)
Probation	807,964	807,964	696,818	111,146
Extended juvenile jurisdiction	1,500	1,500	-	1,500
Case load reduction account	87,038	87,038	114,526	(27,488)
911 services and civil defense	47,018	47,018	128,184	(81,166)
E-911	60,000	60,000	22,518	37,482
Total public safety	\$ 6,723,039	\$ 6,723,039	\$ 6,399,298	\$ 323,741
Sanitation				
SCORE	\$ 97,953	\$ 97,953	\$ 116,490	\$ (18,537)
Household hazardous waste	8,500	8,500	15,853	(7,353)
Total sanitation	\$ 106,453	\$ 106,453	\$ 132,343	\$ (25,890)
Health				
Public health	\$ 462,564	\$ 462,564	\$ 413,612	\$ 48,952
WIC	88,200	88,200	105,720	(17,520)
Total health	\$ 550,764	\$ 550,764	\$ 519,332	\$ 31,432
Culture and recreation				
Historical society	\$ 9,000	\$ 9,000	\$ 9,000	\$ -
Snowmobile trails	-	-	59,911	(59,911)
Total culture and recreation	\$ 9,000	\$ 9,000	\$ 68,911	\$ (59,911)

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Conservation of natural resources				
County agricultural society	\$ 13,500	\$ 13,500	\$ 13,500	\$ -
County extension service	105,752	105,752	100,766	4,986
Soil and water conservation	82,408	82,408	102,316	(19,908)
Other conservation	4,379	4,379	4,379	-
Total conservation of natural resources	\$ 206,039	\$ 206,039	\$ 220,961	\$ (14,922)
Economic development				
Community development	21,050	21,050	20,380	670
Intergovernmental				
Culture and recreation				
Library	250,278	250,278	250,278	-
Capital outlay				
General government	262,521	521,979	518,916	3,063
Public safety	-	-	4,157	(4,157)
Total capital outlay	\$ 262,521	\$ 521,979	\$ 523,073	\$ (1,094)
Debt service				
Bond issuance costs	-	-	16,781	(16,781)
Administrative (fiscal) charges	-	-	1,400	(1,400)
Total debt service	\$ -	\$ -	\$ 18,181	\$ (18,181)
Total Expenditures	\$ 14,153,358	\$ 14,153,358	\$ 13,083,643	\$ 1,069,715
Excess of Revenues Over (Under)				
Expenditures	\$ (3,000)	\$ (3,000)	\$ 1,321,943	\$ 1,324,943
Other Financing Sources (Uses)				
Transfers out	-	-	(118,720)	(118,720)
Proceeds from sale of capital assets	3,000	3,000	47,375	44,375
Total Other Financing Sources (Uses)	\$ 3,000	\$ 3,000	\$ (71,345)	\$ (74,345)
Net Change in Fund Balance	\$ -	\$ -	\$ 1,250,598	\$ 1,250,598
Fund Balance - January 1	7,677,992	7,677,992	7,677,992	-
Fund Balance - December 31	\$ 7,677,992	\$ 7,677,992	\$ 8,928,590	\$ 1,250,598

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

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 950,000	\$ 873,102	\$ 896,101	\$ 22,999
Licenses and permits	12,000	12,000	8,043	(3,957)
Intergovernmental	6,193,131	6,270,029	5,806,230	(463,799)
Charges for services	104,500	104,500	65,684	(38,816)
Miscellaneous	29,500	29,500	13,454	(16,046)
Total Revenues	\$ 7,289,131	\$ 7,289,131	\$ 6,789,512	\$ (499,619)
Expenditures				
Current				
Highways and streets				
Administration	\$ 569,339	\$ 569,339	\$ 589,471	\$ (20,132)
Maintenance	4,673,429	4,673,429	3,654,932	1,018,497
Construction	1,352,842	1,352,842	1,032,165	320,677
Equipment maintenance and shop	522,258	522,258	570,373	(48,115)
Other	16,098	16,098	991	15,107
Total highways and streets	\$ 7,133,966	\$ 7,133,966	\$ 5,847,932	\$ 1,286,034
Intergovernmental				
Highways and streets	155,165	155,165	155,165	-
Total Expenditures	\$ 7,289,131	\$ 7,289,131	\$ 6,003,097	\$ 1,286,034
Net Change in Fund Balance	\$ -	\$ -	\$ 786,415	\$ 786,415
Fund Balance - January 1	1,359,464	1,359,464	1,359,464	-
Increase (decrease) in reserved for inventories	-	-	(1,567)	(1,567)
Fund Balance - December 31	\$ 1,359,464	\$ 1,359,464	\$ 2,144,312	\$ 784,848

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 3,620,049	\$ 3,327,042	\$ 3,293,141	\$ (33,901)
Intergovernmental	3,853,029	4,146,036	4,503,879	357,843
Charges for services	543,876	543,876	416,950	(126,926)
Gifts and contributions	-	-	6,780	6,780
Miscellaneous	128,600	128,600	312,496	183,896
Total Revenues	\$ 8,145,554	\$ 8,145,554	\$ 8,533,246	\$ 387,692
Expenditures				
Current				
Human services				
Income maintenance	\$ 2,070,641	\$ 2,070,641	\$ 2,129,091	\$ (58,450)
Social services	6,074,913	6,074,913	5,784,064	290,849
Total Expenditures	\$ 8,145,554	\$ 8,145,554	\$ 7,913,155	\$ 232,399
Net Change in Fund Balance	\$ -	\$ -	\$ 620,091	\$ 620,091
Fund Balance - January 1	5,703,089	5,703,089	5,703,089	-
Fund Balance - December 31	\$ 5,703,089	\$ 5,703,089	\$ 6,323,180	\$ 620,091

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2008**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except for the Ditch Special Revenue Fund, the Debt Service Fund, and the Capital Projects Fund. All annual appropriations lapse at fiscal year-end unless specifically carried over to the next budget year by Board action.

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the County Auditor/Treasurer so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

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

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

2. Excess of Expenditures Over Appropriations

The following major governmental funds had expenditures in excess of budget at the function level for the year ended December 31, 2008:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund			
Current			
Sanitation	\$ 132,343	\$ 106,453	\$ 25,890
Culture and recreation	68,911	9,000	59,911
Conservation of natural resources	220,961	206,039	14,922
Capital outlay			
Public safety	4,157	-	4,157
Debt service	18,181	-	18,181

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Other Postemployment Benefits Funding Status

Beginning in 2008, Mille Lacs County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets is zero. Currently, only one year's worth of data is available. Future notes will provide additional trend analysis to meet the three-year funding status requirement as it becomes available.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2008	\$ -	\$ 1,080,490	\$ 1,080,490	0.00%	\$ 9,497,190	11.38%

See Note 4.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

SUPPLEMENTARY INFORMATION

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Ditch - to account for the financing of County ditch construction and repairs deemed to benefit the properties against which special assessments are levied.

Community Health Services - to account for Mille Lacs and Isanti Counties' Cooperative Community Health Services. Financing is provided by a state grant.

Housing and Redevelopment Authority - to account for the activities of the Mille Lacs County Housing and Redevelopment Authority.

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

	Special Revenue Funds			
	Ditch	Community Health Services	Housing and Redevelopment Authority	Total
<u>Assets</u>				
Cash and pooled investments	\$ 53,272	\$ 53,433	\$ 10,237	\$ 116,942
Accounts receivable	-	1,806	-	1,806
Total Assets	\$ 53,272	\$ 55,239	\$ 10,237	\$ 118,748
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ -	\$ 390	\$ -	\$ 390
Salaries payable	-	1,647	-	1,647
Due to other funds	-	35	-	35
Due to other governments	-	14	-	14
Advances from other funds	12,800	-	-	12,800
Total Liabilities	\$ 12,800	\$ 2,086	\$ -	\$ 14,886
Fund Balances				
Unreserved				
Undesignated	40,472	53,153	10,237	103,862
Total Fund Balances	\$ 40,472	\$ 53,153	\$ 10,237	\$ 103,862
Total Liabilities and Fund Balances	\$ 53,272	\$ 55,239	\$ 10,237	\$ 118,748

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Statement 2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Special Revenue Funds			
	Ditch	Community Health Services	Housing and Redevelopment Authority	Total
Revenues				
Special assessments	\$ 7,472	\$ -	\$ -	\$ 7,472
Intergovernmental	-	128,280	-	128,280
Charges for services	-	13,920	-	13,920
Miscellaneous	-	1,887	-	1,887
Total Revenues	\$ 7,472	\$ 144,087	\$ -	\$ 151,559
Expenditures				
Current				
Health	\$ -	\$ 123,303	\$ -	\$ 123,303
Conservation of natural resources	13,088	-	-	13,088
Total Expenditures	\$ 13,088	\$ 123,303	\$ -	\$ 136,391
Net Change in Fund Balance	\$ (5,616)	\$ 20,784	\$ -	\$ 15,168
Fund Balance - January 1	46,088	32,369	10,237	88,694
Fund Balance - December 31	\$ 40,472	\$ 53,153	\$ 10,237	\$ 103,862

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
COMMUNITY HEALTH SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	\$ 126,539	\$ 126,539	\$ 128,280	\$ 1,741
Charges for services	31,000	31,000	13,920	(17,080)
Miscellaneous	3,000	3,000	1,887	(1,113)
Total Revenues	\$ 160,539	\$ 160,539	\$ 144,087	\$ (16,452)
Expenditures				
Current				
Health				
Community health services	\$ 100,076	\$ 100,076	\$ 67,560	\$ 32,516
Maternal and child health	60,463	60,463	55,743	4,720
Total Expenditures	\$ 160,539	\$ 160,539	\$ 123,303	\$ 37,236
Net Change in Fund Balance	\$ -	\$ -	\$ 20,784	\$ 20,784
Fund Balance - January 1	32,369	32,369	32,369	-
Fund Balance - December 31	\$ 32,369	\$ 32,369	\$ 53,153	\$ 20,784

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

Region Seven - to account for the funds collected by the County and disbursed to the Region Seven East Development Commission.

School Districts - to account for the school districts' share of taxes collected by the County.

State Agency - to account for the receipt and remittance of funds collected for the State of Minnesota and other local units of government.

Taxes and Penalties - to account for collection of real estate taxes and forfeited tax sale proceeds and their payment to various taxing districts.

County Agency - to account for the collection and remittance of funds for the employee flexible spending account plan and employee dental insurance.

Towns and Cities - to account for the collection and payment of taxes due to towns and cities.

North Central Drug Task Force - to account for the receipts and disbursements of the North Central Drug Task Force.

Family Ties - to account for the receipts and disbursements of the Family Ties Collaborative.

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>REGION SEVEN</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 30,801	\$ 30,801	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 30,801	\$ 30,801	\$ -
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 4,983,070	\$ 4,983,070	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 4,983,070	\$ 4,983,070	\$ -
<u>STATE AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 164	\$ 1,525,596	\$ 1,525,334	\$ 426
<u>Liabilities</u>				
Due to other governments	\$ 164	\$ 1,525,596	\$ 1,525,334	\$ 426

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Statement 3
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 332,877	\$ 28,504,927	\$ 28,516,322	\$ 321,482
<u>Liabilities</u>				
Due to other governments	\$ 332,877	\$ 28,504,927	\$ 28,516,322	\$ 321,482
 <u>COUNTY AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 3,201	\$ 212,077	\$ 204,800	\$ 10,478
<u>Liabilities</u>				
Due to other governments	\$ 3,201	\$ 212,077	\$ 204,800	\$ 10,478
 <u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 6,444,968	\$ 6,444,968	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 6,444,968	\$ 6,444,968	\$ -

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Statement 3
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>NORTH CENTRAL DRUG TASK FORCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>72,320</u>	\$ <u>104,282</u>	\$ <u>95,004</u>	\$ <u>81,598</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>72,320</u>	\$ <u>104,282</u>	\$ <u>95,004</u>	\$ <u>81,598</u>
 <u>FAMILY TIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>382,315</u>	\$ <u>336,189</u>	\$ <u>330,680</u>	\$ <u>387,824</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>382,315</u>	\$ <u>336,189</u>	\$ <u>330,680</u>	\$ <u>387,824</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>790,877</u>	\$ <u>42,141,910</u>	\$ <u>42,130,979</u>	\$ <u>801,808</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

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OTHER SCHEDULES

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 5

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2008**

	<u>Assets</u>	<u>Liabilities</u>		
	<u>Cash and Pooled</u>	<u>Advances</u>	<u>Fund</u>	<u>Total</u>
	<u>Investments</u>	<u>From</u>	<u>Balance</u>	<u>Liabilities and</u>
		<u>Other Funds</u>	<u>Undesignated</u>	<u>Fund Balance</u>
County Ditch				
2	\$ 1,097	\$ -	\$ 1,097	\$ 1,097
3	16,158	-	16,158	16,158
4	21,083	12,800	8,283	21,083
5	5,449	-	5,449	5,449
14	9,485	-	9,485	9,485
Total	<u><u>\$ 53,272</u></u>	<u><u>\$ 12,800</u></u>	<u><u>\$ 40,472</u></u>	<u><u>\$ 53,272</u></u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 6

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2008**

Shared Revenue

State

Highway users tax	\$ 4,347,397
County program aid	1,044,692
PERA rate reimbursement	30,786
Disparity reduction aid	24,716
Police aid	140,769
Indian casino aid	50,869
Enhanced 911	99,331
Market value credit	1,148,989

Total Shared Revenue	<u>\$ 6,887,549</u>
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Reimbursement for Services

State

Minnesota Department of Human Services	<u>\$ 708,877</u>
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Payments

Local

Payments in lieu of taxes	<u>\$ 169,601</u>
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Grants

State

Minnesota Department/Board of	
Public Safety	\$ 201,208
Health	95,451
Natural Resources	505,606
Human Services	1,493,563
Veterans Affairs	67,000
Corrections	230,268
Transportation	213,398
Water and Soil Resources	139,546
Peace Officer Standards and Training Board	12,016
Pollution Control Agency	15,450

Total State	<u>\$ 2,973,506</u>
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Federal

Department of	
Agriculture	\$ 268,450
Transportation	722,205
Health and Human Services	1,796,967
Homeland Security	16,937

Total Federal	<u>\$ 2,804,559</u>
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Total State and Federal Grants	<u>\$ 5,778,065</u>
---------------------------------------	----------------------------

Total Intergovernmental Revenue	<u><u>\$ 13,544,092</u></u>
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**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 7

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Mille Lacs County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Mille Lacs 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 Mille Lacs 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 Mille Lacs 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:

Temporary Assistance for Needy Families	CFDA #93.558
Child Support Enforcement Title IV-D	CFDA #93.563
Medical Assistance Program	CFDA #93.778
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Mille Lacs County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 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. In some 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 Auditor/Treasurer more frequently than once each month, perhaps weekly or even daily, to reduce the amount of funds on hand.
- Department heads should monitor operations within their offices to determine that reports are submitted properly and are in agreement with cash balances and grant expenditures.

- When an office has only a department head and one other employee, the department head should perform some of the accounting functions.

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

Client's Response:

Management is continually aware of the lack of segregation of duties of accounting functions due to limited office personnel within the various County offices. However, internal controls have been implemented as much as practical. All accounting functions are in the process of being reviewed, and policies and procedures are being written. Policy dictates that all receipts of funds be remitted to the Auditor-Treasurer's office daily, when practical, but no less than weekly, unless exceptions are met. Department heads and the County Board are given monthly reports of receipts and expenditures with instructions to review the reports. The County Administrative Services Office further reviews these reports.

02-1 Preparation of Financial Statements

Mille Lacs County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal controls over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

Mille Lacs County has established controls and procedures for the recording, processing, and summarizing of its accounting data used in the preparation of its financial statements.

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

necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the government lacks internal control over the preparation and reporting of financial statements in accordance with GAAP.

We recommend Mille Lacs County obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If Mille Lacs County still intends to have staff from the Office of the State Auditor assist in preparation then, at a minimum, it must identify and train individuals to obtain the expertise that can sufficiently review, understand, and approve the County's financial statements, including notes.

Client's Response:

The County Administrative Services Office is obtaining training and taking the necessary steps to learn the financial statement process. This training will provide the expertise to prepare more of the information necessary for the completion of the financial statements; to further assist the state audit team; to obtain the knowledge to review, understand, and approve the County's financial statement and notes; and to annually make significant steps toward the actual completion of the financial statements.

04-1 Disaster Recovery/Business Continuity Plan

The County does not have an updated disaster recovery plan for its computer operations. The disaster recovery plan could be a component of a more comprehensive business continuity plan, which would detail the measures to be taken in the event of a natural or other disaster.

We recommend the County update its computer disaster recovery plan and consider developing a more comprehensive business continuity plan.

Client's Response:

The County has a Computer Backup Policy to protect the data on its computers. This policy includes the backup schedules and tape storage system. The County contracts with CPUI in Morris, Minnesota, for I Series support, and leases space on their equipment. This also serves as a backup for our data. CPUI has a Business Continuity Plan for their continuation of services in a disaster. The Administrative Services Office will review the disaster and business continuity plans affecting the operations of the County to determine what weaknesses and areas of risk exist, and determine a plan to reinforce those areas.

07-1 Payroll

Authorization for Mille Lacs County payroll changes such as new hires, promotions, and pay increases, is initiated in the County Administrator's Office. Notification of changes to be made is sent to the payroll clerk in the Auditor/Treasurer's Office. The payroll clerk inputs the changes to the master file of the payroll system in addition to processing payroll. During our 2007 audit, we noted that no review was being performed to verify that all changes to the payroll master file were authorized.

Procedures have since been put into place and, currently, the County Administrator's Office obtains a payroll report from the payroll clerk and reviews it for unusual activity. However, this test would be more effective if the County Administrator's Office had the ability to directly run its own payroll edit reports.

It is our understanding that the County is working with its computer service provider to develop a payroll edit report that can be run by the County Administrator's Office. We recommend the County continue in its efforts to develop such a report.

Client's Response:

As of September 2009, there is a "Print Employee Changes" report option available on our payroll system. The Personnel Director, in the Administrative Services Office, will run this report using the date selection field. The report will be run with a beginning date the day after the ending date of the last report. This report will be reviewed against any Personnel Action Forms generated during that period to audit the entries. The Personnel Director will continue to receive the payroll journals as generated for each payroll. This report shows hours worked and rate of pay for each employee for that payroll period. Personnel Action forms are completed by the Employee Relations Specialist, approved by the Personnel Director, and submitted to the Auditor-Treasurer's office for processing. The employee can verify the information on their pay stub, and the Personnel Director will check the Employee Change edit listing and the payroll journals to ensure accuracy of the data.

07-2 Controls Over Journal Entries

Mille Lacs County limits access to the journal entry function to certain County employees. During our audit, we noted that the employees with access to the journal entry function can both create and post a journal entry without review or approval by a second person.

The ability to make journal entries on the accounting system is a powerful function. It allows those employees with access to the journal entry function to make changes to the general ledger system. To prevent abuse of this function, controls over journal entries should include:

- limited access to only those employees whose job duties require it,
-
- an explanation of why the journal entry is being made and who is making it,
-
- sufficient documentation to support the journal entry amounts,
-
- proper supervisory review and approval of journal entries, and
-
- evidence that controls have been monitored by someone independent of the journal entry process.

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

Client's Response:

Mille Lacs County has taken steps to tighten its controls of journal entries. Policies and procedures have been written and were approved by the County Board on July 28, 2009. The Administrative Services Office has reviewed who has access to the Journal Entry program and has limited it to only those employees requiring it to complete their job. All journal entries must be written up along with backup documentation, required explanation, and department head signature. The Family Services Director reviews and signs off on all journal entries within the Family Services or LCTS Funds. The Auditor-Treasurer reviews all other journal entries, including any entries between funds. The Auditor-Treasurer and the Family Services Director then give the journal entries to their staff to be inputted into the financial system. At month end, the Administrative Financial Specialist runs a printout of all manual journal entries for that month and submits this list to the County Administrator for review and signature. The County Administrator, as the person making the final review, has no access to run journal entries on the County Financial System.

ITEM ARISING THIS YEAR

08-1 Information System Risk Management

County management is responsible for internal controls related to its information system. This responsibility extends to monitoring ongoing activities provided by service organizations. Mille Lacs County contracts with Computer Professionals Unlimited, Inc. (CPUI), a service organization, to provide:

- computer hardware for hosting the County's applications;
- processing of accounting transactions and other data;
- daily, weekly, and full system backups of applications and processed data; and
- disaster recovery planning for continued operations.

The County has not developed a formal plan to identify and manage risks associated with this information system arrangement. The County could partially manage these risks if CPUI obtained an audit of its control objectives and control activities. These audits are performed in accordance with Statement on Auditing Standards (SAS) No. 70, *Service Organizations, As Amended*. At the present time, a SAS 70 Service Auditor's Report for CPUI was not available.

During our site visit to CPUI, we noted that computers were not located in a restricted area away from public view. The computers are in an unlocked cage. Daily backup tapes for information processed Monday through Thursday are kept onsite in a locked metal cabinet; however, the cabinet is not designed to protect the tapes from the heat that would be generated in the event of a fire. One fire extinguisher was observed in the office. Weekly and full system backup information is kept at an offsite location.

We recommend that Mille Lacs County management establish a formal plan to meet its responsibilities for monitoring internal controls related to its information system. This should include documented consideration of services provided by CPUI. To specifically address hardware and backup physical control weaknesses associated with CPUI, we recommend County management work with CPUI to manage and minimize those risks. Also, the County should consider the possibility of requesting that CPUI obtain a SAS 70 audit.

Client's Response:

The County will develop a formal plan to identify and manage risks associated with our information system arrangement. A preliminary plan has been developed.

PREVIOUSLY REPORTED ITEMS RESOLVED

Computer Controls (06-1)

Mille Lacs County has established controls over its computer operations to ensure the proper recording, processing, and summarizing of accounting data. However, we noted several weaknesses in the general and application controls designed to prevent unauthorized access.

Resolution

Mille Lacs County reviewed general and application controls with its computer service provider and made the necessary improvements to strengthen controls over unauthorized access to the system.

Audit Adjustments (06-2)

One control deficiency that is typically considered significant is identification by the auditor of a material misstatement in the financial statements not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement. During our 2007 audit, we identified a material audit adjustment in the General Fund.

Resolution

No material audit adjustments were identified during the 2008 audit.

Jail Inmate Account Bank Reconciliation (07-3)

The Mille Lacs County Jail was unable to identify the breakdown of the total cash balance stated on TEAM, its inmate account tracking system. Jail personnel were, therefore, unable to fully reconcile the amount in the TEAM system to the bank statement.

Resolution

Due to changes in the TEAM system, the County is now able to perform computerized bank reconciliations.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-5 Compliance with Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989

For one of the three depository banks, the County did not have documentation demonstrating that it had perfected security interest in pledged collateral in compliance with FIRREA, 12 U.S.C. § 1823(e). A 1992 U.S. Court of Appeals decision stated that, if a municipality fails to perfect a security interest under federal law, its right to such collateral in the event of the default is not enforceable. To obtain an enforceable security interest in the collateral, FIRREA requires the pledging institution's security agreement or pledge of collateral to meet certain requirements.

We recommend that when the County receives the written collateral assignment, it also review the assignment to determine that:

- the assignment is approved by the depository's Board of Directors or loan committee; and
- the assignment of collateral is continuously, from the time of its execution, an official record of the depository.

We also recommend the County require its depository institutions to comply with FIRREA and to provide proof of compliance in the form of a copy of the depository's Board of Directors or loan committee resolution. The agreement or pledge should include a list of particular securities pledged at the time of the resolution.

Client's Response:

Documents were on file at the County. Peoples Bank of Commerce has been contacted and will be sending out more documentation after their next board meeting in October 2009.

PREVIOUSLY REPORTED ITEM RESOLVED

Depository Pledge Agreement (07-4)

The depository pledge agreement between Bremer Bank and the County provided the bank at least three business days and an opportunity to cure the default before the custodian can release the collateral in the event of default. Minn. Stat. § 118A.03, subd. 4, states, “The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged.”

Resolution

Bremer Bank provided an updated pledge agreement that is in compliance with Minn. Stat. § 118A.03, subd. 4.



REBECCA OTTO
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STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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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
Mille Lacs County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mille Lacs County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 20, 2009. 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 Mille Lacs 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 96-1, 02-1, 04-1, 07-1, 07-2, and 08-1 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 the financial statements will not be prevented or detected by the County's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mille Lacs 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, Mille Lacs 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 07-5.

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

This report is intended solely for the information and use of the Board of County Commissioners, management, others within Mille Lacs 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

October 20, 2009

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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REBECCA OTTO
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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
Mille Lacs County

Compliance

We have audited the compliance of Mille Lacs 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, 2008. Mille Lacs 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 Mille Lacs 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, Mille Lacs 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, 2008.

Internal Control Over Compliance

The management of Mille Lacs 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 the 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, each major fund, and the aggregate remaining fund information of Mille Lacs County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 20, 2009. Our audit was performed for the purpose of forming opinions on Mille Lacs County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements.

Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

October 20, 2009

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 8

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

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	\$ 111,874
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Special Nutrition Assistance Program	10.561	156,576
Total U.S. Department of Agriculture		\$ 268,450
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 397,911
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	10,035
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	31,005
Total U.S. Department of Transportation		\$ 438,951
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	\$ 35,987
Temporary Assistance for Needy Families (TANF)	93.558	32,824
Maternal and Child Health Services Block Grant	93.994	32,971
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families - Title IV-B	93.556	64,332
Temporary Assistance for Needy Families (TANF)	93.558	334,099
Child Support Enforcement Title IV-D	93.563	385,775
Refugee and Entrant Assistance - State-Administered Programs	93.566	464
Child Care Cluster Child Care and Development Block Grant	93.575	10,734
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	2,749
Foster Care Title IV-E	93.658	153,567
Social Services Block Grant Title XX	93.667	207,625
Chafee Foster Care Independence Program	93.674	11,431
State Children's Insurance Program	93.767	416
Medical Assistance Program	93.778	518,933
Community Mental Health Services Block Grant	93.958	5,060
Total U.S. Department of Health and Human Services		\$ 1,796,967

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 8
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 13,800
Passed Through Minnesota Department of Public Safety Homeland Security Grant Program	97.067	<u>3,137</u>
Total U.S. Department of Homeland Security		<u>\$ 16,937</u>
Total Federal Awards		<u>\$ 2,521,305</u>

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 Mille Lacs County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the accrual basis of accounting.
3. Due to timing differences in revenue recognition under the modified accrual basis, expenditures on this schedule may not equal federal revenues reported in the financial statements. In 2008, \$330,516 of prior year federal expenditures were recognized as revenues in the financial statements, and \$47,262 of current year federal expenditures were not recognized as revenues because they were not received within the period of availability.
4. During 2008, the County did not pass any federal money to subrecipients.
5. Pass-through grant numbers were not assigned by the pass-through agencies.