

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

AITKIN COUNTY
AITKIN, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2010

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

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**AITKIN COUNTY
AITKIN, MINNESOTA**

For the Year Ended December 31, 2010



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

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**AITKIN COUNTY
AITKIN, MINNESOTA**

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AITKIN, MINNESOTA**

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**AITKIN COUNTY
AITKIN, MINNESOTA**

**ORGANIZATION
AS OF DECEMBER 31, 2010**

		<u>Term Expires</u>
Elected		
Commissioners		
District 1	Mark Wedel	January 2011
District 2	Laurie Westerlund	January 2012
District 3	Paul Bailey	January 2011
District 4	Brian Napstad	January 2012
District 5	Galen Tveit	January 2011
Attorney	Jim Ratz	January 2011
Auditor	Kirk Peysar	January 2011
Recorder	Diane Lafferty	January 2011
Sheriff	Scott Turner	January 2011
Treasurer	Lori Grams	January 2011
Appointed		
Administrator	Patrick Wussow	Indefinite
Assessor	Mike Dangers	December 2012
Engineer	John Welle	December 2012
Coroner	Dr. M. B. McGee	Indefinite
Health and Human Services Director	Tom Burke	Indefinite
Land Commissioner	Mark Jacobs	Indefinite
Veterans Service Officer	Penny Harms	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Aitkin County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Aitkin County, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Aitkin County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Aitkin County as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2011, on our consideration of Aitkin County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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AITKIN COUNTY
AITKIN, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(Unaudited)

Aitkin County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2010. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities have total net assets of \$99,123,496, of which \$69,407,334 is invested in capital assets, net of related debt, and \$6,051,773 is restricted to specific purposes.
- Business-type activities have total net assets of \$3,452,477. Invested in capital assets, net of related debt, represents \$3,741,231 of the total. Of the total business-type net assets, \$2,000 is restricted for specific uses.
- Aitkin County's net assets increased by \$3,240,424 for the year ended December 31, 2010. Of the increase, \$3,415,559 was in governmental activities' net assets, and business-type activities decreased net assets by \$175,135.
- The cost of primary government activities increased by \$404,696 to \$25,209,606 for the current fiscal year. Program revenues of \$14,249,012 offset those costs. A portion of the net cost was funded by general revenues and other items totaling \$14,201,018.
- Governmental funds' fund balances increased by \$618,451.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

Fund Financial Statements

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

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

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

Reporting the County's Fiduciary Responsibilities

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

THE COUNTY AS A WHOLE

Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental and business-type activities for the year ended December 31, 2010, with comparative amounts for 2009. Unless otherwise indicated, all amounts are in thousands.

**Table 1
Net Assets**

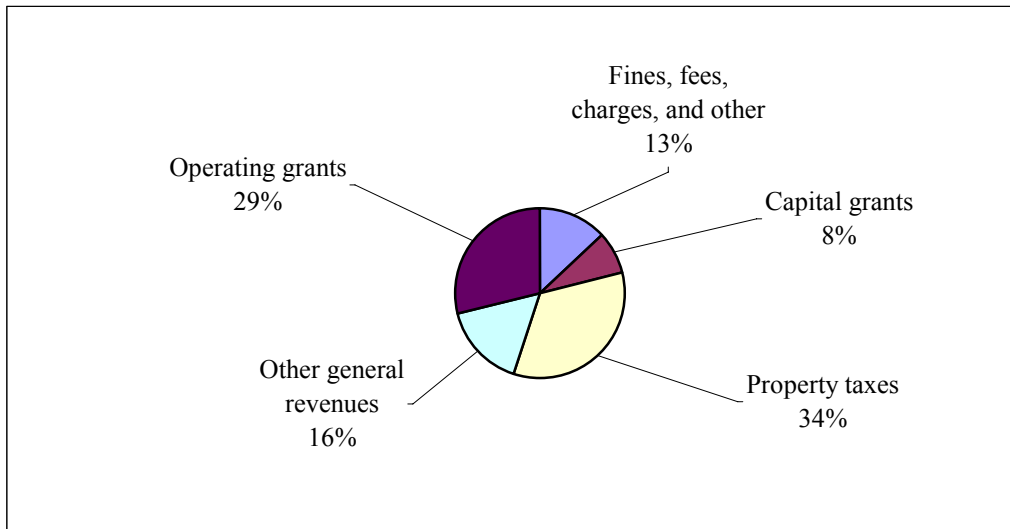
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 32,644	\$ 33,805	\$ (254)	\$ (233)	\$ 32,390	\$ 33,572
Capital assets	70,837	68,040	3,741	3,891	74,578	71,931
Total Assets	\$ 103,481	\$ 101,845	\$ 3,487	\$ 3,658	\$ 106,968	\$ 105,503
Long-term debt outstanding	\$ 2,896	\$ 3,319	\$ 20	\$ 15	\$ 2,916	\$ 3,334
Other liabilities	1,462	2,818	14	15	1,476	2,833
Total Liabilities	\$ 4,358	\$ 6,137	\$ 34	\$ 30	\$ 4,392	\$ 6,167
Net Assets						
Invested in capital assets, net of related debt	\$ 69,407	\$ 66,165	\$ 3,742	\$ 3,891	\$ 73,149	\$ 70,056
Restricted	6,052	6,595	2	2	6,054	6,597
Unrestricted	23,664	22,948	(291)	(265)	23,373	22,683
Total Net Assets	\$ 99,123	\$ 95,708	\$ 3,453	\$ 3,628	\$ 102,576	\$ 99,336

**Table 2
Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues						
Fines, fees, charges, and other	\$ 3,051	\$ 2,609	\$ 602	\$ 653	\$ 3,653	\$ 3,262
Operating grants	8,366	7,956	4	6	8,370	7,962
Capital grants	2,219	2,577	6	10	2,225	2,587
General revenues						
Property taxes	9,757	9,581	-	-	9,757	9,581
Other taxes	1,213	1,101	-	-	1,213	1,101
Grants and contributions	1,581	1,897	2	2	1,583	1,899
Other general revenues	1,649	2,172	-	-	1,649	2,172
Total Revenues	\$ 27,836	\$ 27,893	\$ 614	\$ 671	\$ 28,450	\$ 28,564
Expenses						
General government	\$ 4,845	\$ 5,011	\$ -	\$ -	\$ 4,845	\$ 5,011
Public safety	5,182	4,536	-	-	5,182	4,536
Highways and streets	4,856	4,946	-	-	4,856	4,946
Sanitation	295	300	-	-	295	300
Human services	5,508	5,495	-	-	5,508	5,495
Health	687	612	-	-	687	612
Culture and recreation	832	806	-	-	832	806
Conservation of natural resources	2,071	2,001	789	886	2,860	2,887
Economic development	73	117	-	-	73	117
Interest	72	94	-	-	72	94
Total Expenses	\$ 24,421	\$ 23,918	\$ 789	\$ 886	\$ 25,210	\$ 24,804

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Increase (Decrease) in Net Assets	\$ 3,415	\$ 3,975	\$ (175)	\$ (215)	\$ 3,240	\$ 3,760
Net Assets, January 1	95,708	91,733	3,628	3,843	99,336	95,576
Net Assets, December 31	<u>\$ 99,123</u>	<u>\$ 95,708</u>	<u>\$ 3,453</u>	<u>\$ 3,628</u>	<u>\$ 102,576</u>	<u>\$ 99,336</u>

Total County Revenues by Source



Governmental Activities

The cost of all activities this year was \$24,421. However, as shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through County taxes was \$9,757 because some of the cost was paid by those who directly benefited from the programs (\$3,051) or by other governments and organizations that subsidized certain programs with grants and contributions (\$10,586).

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

**Table 3
Governmental Activities**

Activity	Total Cost of Services		Net Cost of Services	
	2010	2009	2010	2009
General government	\$ 4,845	\$ 5,011	\$ 3,680	\$ 3,898
Public safety	5,182	4,536	3,877	3,657
Highways and streets	4,856	4,946	(2,011)	(1,607)
Human services	5,507	5,495	2,595	2,619
Conservation of natural resources	2,071	2,001	1,546	1,217
Totals	\$ 22,461	\$ 21,989	\$ 9,687	\$ 9,784

Business-Type Activities

The revenues of the County’s business-type activities decreased by 8.5 percent, primarily due to lower attendance in 2010. Income from fees decreased 7.8 percent, and expenses decreased by 10.9 percent.

The County’s Funds

As the County completed the year, its governmental funds reported a combined fund balance of \$28,063, which is above last year’s total of \$27,445. The Road and Bridge Special Revenue Fund’s change in fund balance (an increase of \$1,567 for 2010) represented the largest increase in governmental fund balances. Most of the Road and Bridge Special Revenue Fund’s increase is due to receipt of state funding. The Health and Human Services Special Revenue Fund balance increased \$48. The General Fund saw a reduction in fund balance of \$985.

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) were \$352 over the final budget amounts. Significant positive variances include the following: general government expenditures were less than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the County had \$74,578 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of \$2,647, or 3.7 percent, over the last year.

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

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Land	\$ 2,526	\$ 2,520	\$ 15	\$ 15	\$ 2,541	\$ 2,535
Construction in progress	448	378	1	1	449	379
Buildings and improvements	8,869	9,197	3,708	3,855	12,577	13,052
Machinery and equipment	2,039	2,196	17	20	2,056	2,216
Infrastructure	56,955	53,749	-	-	56,955	53,749
Totals	<u>\$ 70,837</u>	<u>\$ 68,040</u>	<u>\$ 3,741</u>	<u>\$ 3,891</u>	<u>\$ 74,578</u>	<u>\$ 71,931</u>

This year's major additions include:

CSAH 10	Bituminous overlay	\$ 1,791
CSAH 1	Bridge Replacement	1,005
CSAH 14	Bridge Replacement	417

The County's fiscal year 2011 capital budget calls for it to spend another \$5,081 for capital projects, principally for highways and streets improvements. Additional information on capital assets is found in Note 3.A.3. to the financial statements.

Debt

At year-end, the County had \$1,908 in bonds, notes, and loans outstanding, versus \$2,367 last year, a decrease of 19.4 percent, as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	Governmental Activities	
	2010	2009
General obligation bonds (backed by the County)	\$ 1,430	\$ 1,760
General obligation revenue notes	50	50
Certificates of participation	-	115
Clear Water Partnership Project notes	9	23
Minnesota Department of Agriculture loans	129	129
Minnesota Department of Natural Resources loan	290	290
Totals	<u>\$ 1,908</u>	<u>\$ 2,367</u>

The County's general obligation bond rating is "A1," a rating assigned by national rating agencies to the County's debt. The state limits the amount of net debt the County can issue to three percent of the market value of all taxable property in the County. The County's outstanding net debt is significantly below this \$101,684 state-imposed limit.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2011 budget, tax rates, and fees that will be charged for the business-type activities.

- The State of Minnesota had projected a significant budget deficit; the County experienced reductions through unallotment of County Program Aid in 2010. It is expected that there will be significant reductions in state aids to local governments in 2011 and 2012.
- Further increases in the unemployment rate in 2011 could impact the level of services requested by County residents.
- The population of Aitkin County is increasing dramatically. This increase is creating increased demands for services across several service areas.
- The potential for deflation in real estate market values could result in tax rate increases.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report, or need additional information, contact Kirk Peysar, Aitkin County Auditor, Aitkin County Courthouse, 209 Second Street N.W., Room 202, Aitkin, Minnesota 56431.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 27,584,684	\$ -	\$ 27,584,684
Petty cash and change funds	6,000	-	6,000
Cash with fiscal agent	135,457	-	135,457
Taxes receivable			
Prior - net	556,093	-	556,093
Special assessments receivable			
Prior - net	1,825	-	1,825
Noncurrent - net	16,787	-	16,787
Accounts receivable - net	2,148,910	21,794	2,170,704
Accrued interest receivable	87,932	-	87,932
Loan receivable	120,260	-	120,260
Internal balances	280,531	(280,531)	-
Due from other governments	1,383,743	-	1,383,743
Inventories	276,316	2,391	278,707
Prepaid items	5,822	-	5,822
Deposits receivable	25,000	-	25,000
Restricted assets			
Cash and pooled investments	-	2,000	2,000
Deferred charges	14,497	-	14,497
Capital assets			
Non-depreciable	2,973,748	16,400	2,990,148
Depreciable - net of accumulated depreciation	67,863,586	3,724,831	71,588,417
Total Assets	\$ 103,481,191	\$ 3,486,885	\$ 106,968,076
<u>Liabilities</u>			
Accounts payable	\$ 417,887	\$ 7,160	\$ 425,047
Salaries payable	336,894	7,299	344,193
Contracts payable	386,274	-	386,274
Due to other governments	232,588	-	232,588
Unearned revenue	88,142	-	88,142
Long-term liabilities			
Due within one year	643,454	-	643,454
Due in more than one year	2,252,456	19,949	2,272,405
Total Liabilities	\$ 4,357,695	\$ 34,408	\$ 4,392,103

**AITKIN COUNTY
AITKIN, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 69,407,334	\$ 3,741,231	\$ 73,148,565
Restricted for			
General government	551,714	-	551,714
Public safety	553,197	-	553,197
Culture and recreation	220,974	-	220,974
Conservation of natural resources	2,128,847	-	2,128,847
Highways and streets	550,963	-	550,963
Sanitation	615,161	-	615,161
Debt service	335,485	-	335,485
Other purposes	1,095,432	2,000	1,097,432
Unrestricted	23,664,389	(290,754)	23,373,635
Total Net Assets	\$ 99,123,496	\$ 3,452,477	\$ 102,575,973

**AITKIN COUNTY
AITKIN, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Primary government		
Governmental activities		
General government	\$ 4,845,186	\$ 1,029,081
Public safety	5,182,125	1,018,976
Highways and streets	4,856,020	266,980
Sanitation	295,117	10,761
Human services	5,507,312	604,600
Health	687,267	108,290
Culture and recreation	831,890	12,555
Conservation of natural resources	2,070,636	-
Economic development	73,393	-
Interest	71,560	-
Total governmental activities	\$ 24,420,506	\$ 3,051,243
Business-type activities		
Long Lake Conservation Center	789,100	601,529
Total Primary Government	\$ 25,209,606	\$ 3,652,772

General Revenues

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

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
		Governmental Activities	Business-Type Activities	Total
\$ 135,834	\$ -	\$ (3,680,271)	\$ -	\$ (3,680,271)
285,654	-	(3,877,495)	-	(3,877,495)
4,380,549	2,219,439	2,010,948	-	2,010,948
-	-	(284,356)	-	(284,356)
2,307,234	-	(2,595,478)	-	(2,595,478)
676,155	-	97,178	-	97,178
56,941	-	(762,394)	-	(762,394)
523,919	-	(1,546,717)	-	(1,546,717)
-	-	(73,393)	-	(73,393)
-	-	(71,560)	-	(71,560)
\$ 8,366,286	\$ 2,219,439	\$ (10,783,538)	\$ -	\$ (10,783,538)
4,165	6,350	-	(177,056)	(177,056)
\$ 8,370,451	\$ 2,225,789	\$ (10,783,538)	\$ (177,056)	\$ (10,960,594)
		\$ 9,756,639	\$ -	\$ 9,756,639
		14,544	-	14,544
		32,266	-	32,266
		1,166,130	-	1,166,130
		1,580,852	1,888	1,582,740
		451,140	33	451,173
		1,157,874	-	1,157,874
		39,652	-	39,652
		\$ 14,199,097	\$ 1,921	\$ 14,201,018
		\$ 3,415,559	\$ (175,135)	\$ 3,240,424
		95,707,937	3,627,612	99,335,549
		\$ 99,123,496	\$ 3,452,477	\$ 102,575,973

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
DECEMBER 31, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>	<u>Forfeited Tax Sale</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Assets</u>						
Cash and pooled investments	\$ 13,772,292	\$ 3,795,282	\$ 4,278,745	\$ 3,057,962	\$ 2,680,403	\$ 27,584,684
Petty cash and change funds	3,000	-	3,000	-	-	6,000
Cash with fiscal agent	135,457	-	-	-	-	135,457
Taxes receivable						
Prior	299,271	103,261	129,689	-	23,872	556,093
Special assessments						
Prior	-	-	-	-	1,825	1,825
Noncurrent	-	-	-	-	16,787	16,787
Accounts receivable	71,851	607	19,224	2,057,228	-	2,148,910
Accrued interest receivable	87,932	-	-	-	-	87,932
Loans receivable	120,260	-	-	-	-	120,260
Due from other funds	608,258	23,449	-	-	397,060	1,028,767
Due from other governments	71,084	656,896	475,692	2,648	177,423	1,383,743
Prepaid expense	-	-	5,822	-	-	5,822
Inventories	-	276,316	-	-	-	276,316
Deposits receivable	25,000	-	-	-	-	25,000
Total Assets	<u>\$ 15,194,405</u>	<u>\$ 4,855,811</u>	<u>\$ 4,912,172</u>	<u>\$ 5,117,838</u>	<u>\$ 3,297,370</u>	<u>\$ 33,377,596</u>
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 187,760	\$ 66,118	\$ 146,043	\$ 8,198	\$ 9,768	\$ 417,887
Salaries payable	180,086	62,763	75,752	13,062	5,231	336,894
Contracts payable	-	386,274	-	-	-	386,274
Due to other funds	-	-	10,854	713,933	23,449	748,236
Due to other governments	-	-	19,485	213,097	6	232,588
Deferred revenue - unavailable	241,730	662,017	105,366	2,057,228	38,000	3,104,341
Timber permit bonds	-	-	-	88,142	-	88,142
Total Liabilities	<u>\$ 609,576</u>	<u>\$ 1,177,172</u>	<u>\$ 357,500</u>	<u>\$ 3,093,660</u>	<u>\$ 76,454</u>	<u>\$ 5,314,362</u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
DECEMBER 31, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>	<u>Forfeited Tax Sale</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Liabilities and Fund Balances</u>						
(Continued)						
Fund Balances						
Reserved for						
Environmental uses	\$ -	\$ -	\$ -	\$ -	\$ 484,937	\$ 484,937
Missing heirs	-	-	-	20,090	-	20,090
Inventories	-	276,316	-	-	-	276,316
Capital membership	25,000	-	-	-	-	25,000
County development	-	-	-	1,073,527	-	1,073,527
Sobriety court fees	18,106	-	-	-	-	18,106
Law library	-	-	-	16,845	-	16,845
Sheriff's contingency	3,234	-	-	-	-	3,234
Debt service	135,457	-	-	-	-	135,457
Loans receivable	120,260	-	-	-	-	120,260
Recorder's equipment purchases	274,415	-	-	-	-	274,415
Recorder's technology	255,454	-	-	-	-	255,454
Attorney grant carryover	5,000	-	-	-	-	5,000
Enhanced 911	427,034	-	-	-	-	427,034
Conservation of natural resources	19,680	-	-	-	-	19,680
Gun permit carryover	50,730	-	-	-	-	50,730
Prisoner welfare	54,093	-	-	-	-	54,093
STS carryover	1,429	-	-	-	-	1,429
Unclaimed property	-	-	-	1,815	-	1,815
Forfeited tax sale	-	-	-	31,106	-	31,106
Parks	62,537	-	-	-	-	62,537
Unreserved						
Designated for						
Future expenditures	614,958	-	-	-	-	614,958
Cash flows	11,285,250	-	-	-	-	11,285,250
Solid waste	615,161	-	-	-	-	615,161
Economic development	617,031	-	-	-	-	617,031
Workers' compensation	-	-	-	880,795	-	880,795
Undesignated	-	3,402,323	4,554,672	-	-	7,956,995
Unreserved, reported in nonmajor						
Special revenue funds	-	-	-	-	2,535,951	2,535,951
Debt service fund	-	-	-	-	200,028	200,028
Total Fund Balances	\$ 14,584,829	\$ 3,678,639	\$ 4,554,672	\$ 2,024,178	\$ 3,220,916	\$ 28,063,234
Total Liabilities and Fund Balances	\$ 15,194,405	\$ 4,855,811	\$ 4,912,172	\$ 5,117,838	\$ 3,297,370	\$ 33,377,596

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

Fund balances - total governmental funds (Exhibit 3)		\$ 28,063,234
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.		70,837,334
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		
Deferred revenue		3,104,341
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds - including issuance premium	\$ (1,513,425)	
Notes	(58,889)	
Loans payable	(418,797)	
Compensated absences (not reported in the funds)	(904,799)	
Deferred debt issuance charges	14,497	(2,881,413)
Net Assets of Governmental Activities (Exhibit 1)		<u><u>\$ 99,123,496</u></u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>	<u>Forfeited Tax Sale</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues						
Taxes	\$ 5,322,244	\$ 1,767,974	\$ 2,200,161	\$ -	\$ 433,885	\$ 9,724,264
Special assessments	-	-	-	-	1,513	1,513
Licenses and permits	131,718	-	-	-	49,459	181,177
Intergovernmental	2,355,176	6,942,995	3,349,448	283,506	407,293	13,338,418
Charges for services	1,654,615	231,300	44,229	29,752	-	1,959,896
Gifts and contributions	250	-	-	-	-	250
Interest on investments	438,680	-	-	-	12,460	451,140
Miscellaneous	273,090	31,502	604,600	1,691,661	11,444	2,612,297
Total Revenues	\$ 10,175,773	\$ 8,973,771	\$ 6,198,438	\$ 2,004,919	\$ 916,054	\$ 28,268,955
Expenditures						
Current						
General government	\$ 4,685,250	\$ -	\$ -	\$ 23,658	\$ 1,445	\$ 4,710,353
Public safety	4,970,360	-	-	-	19,066	4,989,426
Highways and streets	-	8,095,251	-	-	-	8,095,251
Sanitation	279,759	-	-	-	-	279,759
Human services	-	-	5,471,248	-	-	5,471,248
Health	8,170	-	679,564	-	-	687,734
Culture and recreation	828,459	-	-	-	-	828,459
Conservation of natural resources	269,235	-	-	1,011,113	761,690	2,042,038
Economic development	73,002	-	-	-	-	73,002
Debt service						
Principal	118,386	-	-	-	330,000	448,386
Interest	3,619	-	-	-	88,000	91,619
Total Expenditures	\$ 11,236,240	\$ 8,095,251	\$ 6,150,812	\$ 1,034,771	\$ 1,200,201	\$ 27,717,275
Excess of Revenues Over (Under) Expenditures	\$ (1,060,467)	\$ 878,520	\$ 47,626	\$ 970,148	\$ (284,147)	\$ 551,680

**AITKIN COUNTY
AITKIN, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>	<u>Forfeited Tax Sale</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Other Financing Sources						
(Uses)						
Transfers in	\$ 404,668	\$ 621,237	\$ -	\$ -	\$ 445,596	\$ 1,471,501
Transfers out	(328,779)	-	-	(1,007,402)	(135,320)	(1,471,501)
Total Other Financing Sources (Uses)	<u>\$ 75,889</u>	<u>\$ 621,237</u>	<u>\$ -</u>	<u>\$ (1,007,402)</u>	<u>\$ 310,276</u>	<u>\$ -</u>
Change in Fund Balance	\$ (984,578)	\$ 1,499,757	\$ 47,626	\$ (37,254)	\$ 26,129	\$ 551,680
Fund Balance - January 1	15,569,407	2,112,111	4,507,046	2,061,432	3,194,787	27,444,783
Increase (decrease) in reserved for inventories	<u>-</u>	<u>66,771</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,771</u>
Fund Balance - December 31	<u><u>\$ 14,584,829</u></u>	<u><u>\$ 3,678,639</u></u>	<u><u>\$ 4,554,672</u></u>	<u><u>\$ 2,024,178</u></u>	<u><u>\$ 3,220,916</u></u>	<u><u>\$ 28,063,234</u></u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 551,680

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, less any deferred amounts due to other governments.

December 31		
Deferred revenue - unavailable	\$ 3,104,341	
January 1		
Deferred revenue - unavailable	(3,526,644)	(422,303)

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	\$ 5,084,087	
Net book value of assets sold	(10,587)	
Current year depreciation	(2,276,005)	2,797,495

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

Principal repayments		
General obligation bonds	\$ 330,000	
Certificates of participation	115,000	
Notes	13,981	458,981

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	\$ 2,827	
Change in compensated absences	(57,124)	
Amortization of deferred debt issuance costs	(3,624)	
Amortization of bond premiums	20,856	
Change in inventories	66,771	29,706

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 3,415,559

PROPRIETARY FUND

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**LONG LAKE CONSERVATION CENTER
ENTERPRISE FUND**

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**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND
DECEMBER 31, 2010**

Assets

Current assets

Accounts receivable - net	\$	21,794
Inventories		2,391
		24,185
Total current assets	\$	24,185

Restricted assets

Cash and pooled investments	\$	2,000
		2,000

Noncurrent assets

Capital assets		
Nondepreciable	\$	16,400
Depreciable - net		3,724,831
		3,741,231
Total noncurrent assets	\$	3,741,231

Total Assets	\$	3,767,416
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Liabilities

Current liabilities

Accounts payable	\$	7,160
Salaries payable		7,299
Due to other funds		280,531
		294,990
Total current liabilities	\$	294,990

Noncurrent liabilities

Compensated absences payable - long-term		19,949
		19,949

Total Liabilities	\$	314,939
--------------------------	-----------	----------------

Net Assets

Invested in capital assets - net of related debt	\$	3,741,231
Restricted for		
Publications		2,000
Unrestricted		(290,754)
		(288,754)
Total Net Assets	\$	3,452,477

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

Operating Revenues	
Program packages	\$ 557,573
Resale	36,809
Miscellaneous	7,147
	<hr/>
Total Operating Revenues	\$ 601,529
Operating Expenses	
Personal services	\$ 422,941
Other services and charges	30,363
Supplies	74,630
Utilities	47,734
Advertising	3,028
Insurance	35,379
Staff training	180
Postage	691
Depreciation	150,013
Resale	24,141
	<hr/>
Total Operating Expenses	\$ 789,100
Operating Income (Loss)	\$ (187,571)
Nonoperating Revenues (Expenses)	
Intergovernmental	\$ 4,728
Interest income	33
Gifts and contributions	7,675
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 12,436
Change in Net Assets	\$ (175,135)
Net Assets - January 1	3,627,612
	<hr/>
Net Assets - December 31	\$ 3,452,477
	<hr/> <hr/>

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 590,830
Payments to suppliers	(214,963)
Payments to employees	(417,818)
	<hr/>
Net cash provided by (used in) operating activities	\$ (41,951)
Cash Flows from Noncapital Financing Activities	
Intergovernmental	\$ 4,728
Contributions	1,325
Interfund	29,515
	<hr/>
Net cash provided by (used in) noncapital financing activities	\$ 35,568
Cash Flows from Capital and Related Financing Activities	
Capital contributions	\$ 6,350
	<hr/>
Cash Flows from Investing Activities	
Interest	\$ 33
	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ -
Cash and Cash Equivalents at January 1	2,000
	<hr/>
Cash and Cash Equivalents at December 31	\$ 2,000
	<hr/> <hr/>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	\$ (187,571)
	<hr/>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 150,013
(Increase) decrease in accounts receivable	(10,699)
(Increase) decrease in inventories	2,061
Increase (decrease) in accounts payable	(878)
Increase (decrease) in salaries payable	331
Increase (decrease) in compensated absences payable	4,792
	<hr/>
Total adjustments	\$ 145,620
	<hr/>
Net Cash Provided by (Used in) Operating Activities	\$ (41,951)
	<hr/> <hr/>

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

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FIDUCIARY FUNDS

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**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2010**

Assets

Cash and pooled investments	\$ 827,063
Due from other governments	<u>181</u>
Total Assets	<u><u>\$ 827,244</u></u>

Liabilities

Accounts payable	\$ 111,272
Due to other governments	<u>715,972</u>
Total Liabilities	<u><u>\$ 827,244</u></u>

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AITKIN COUNTY
AITKIN, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010

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, 2010. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Aitkin County was established May 23, 1857, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Aitkin County. Aitkin County has no component units. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

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

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

2. Fund Financial Statements

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

AITKIN COUNTY
AITKIN, MINNESOTA

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

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

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

The County reports the following major enterprise fund:

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

Additionally, the County reports the following fund types:

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

C. Measurement Focus and Basis of Accounting

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2010, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds receive investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2010 were \$438,680.

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

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

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

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

All receivables are shown net of an allowance for uncollectibles.

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

4. Inventories and Prepaid Items

All inventories are valued at cost. The Road and Bridge Special Revenue Fund uses an average cost method to value inventory, and the Long Lake Conservation Center Enterprise Fund uses the first in/first out method. Inventories in governmental funds are reported as expenditures when purchased rather than when consumed. Inventories in proprietary funds and at the government-wide level are reported as expenses when consumed.

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

AITKIN COUNTY
AITKIN, MINNESOTA

1. Summary of Significant Accounting Policies

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

5. Restricted Assets

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

6. Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the County did not have any capitalized interest.

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Compensated Absences

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

8. Deferred Revenue

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

9. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the 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 other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

10. Fund Equity

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

11. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Expenditures in Excess of Budget

For the year ended December 31, 2010, expenditures exceeded appropriations in the General Fund by \$352,413; the Forest Development Special Revenue Fund by \$8,688; the Ditch Special Revenue Fund by \$137; the Unorganized Road, Bridge, and Fire Special Revenue Fund by \$471; and the Jail Bond Debt Service Fund by \$7,125. These expenditures in excess of appropriations were funded by greater than anticipated revenues in the Unorganized Road, Bridge, and Fire Special Revenue Fund and Forest Development Special Revenue Fund and by the use of fund balances in the General Fund, the Ditch Special Revenue Fund, and the Jail Bond Debt Service Fund.

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 27,584,684
Petty cash and change funds	6,000
Cash with fiscal agent	135,457
Business-type activities	
Cash and pooled investments - restricted assets	2,000
Statement of fiduciary net assets	
Cash and pooled investments	<u>827,063</u>
 Total Cash and Investments	 <u>\$ 28,555,204</u>

a. Deposits

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

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

**AITKIN COUNTY
AITKIN, 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. It is the County's policy that collateral or bonds will be required for all uninsured amounts on deposit, and the additional insurance will be documented to show compliance with state law and a perfected security interest under federal law. As of December 31, 2010, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

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.

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's policy is that brokers may hold County investments only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available, with the exception of investments held within the MAGIC Fund. As of December 31, 2010, 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, and corporate securities may be held up to \$2,000,000 per issuer.

The following table presents the County's deposit and investment balances at December 31, 2010, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
U.S. government agency securities					
Government National Mortgage Association Pool	N/A	N/A		05/15/2021	\$ 4,998
Government National Mortgage Association Pool	N/A	N/A		12/15/2022	2,393
Total Government National Mortgage Association Pools					\$ 7,391
Federal Home Loan Mortgage Corporation Bond	AAA	S&P		08/25/2015	\$ 999,070
Federal Home Loan Mortgage Corporation Bond	AAA	S&P		04/29/2016	1,506,870
Federal Home Loan Mortgage Corporation Bond	AAA	S&P		09/07/2017	3,233,880
Federal Home Loan Mortgage Corporation Bond	N/R	N/A		04/01/2017	294
Total Federal Home Loan Mortgage Corporation Bonds			36.81%		\$ 5,740,114

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
Federal Home Loan Bank Bonds	AAA	S&P		10/27/2017	\$ 977,930
Federal Home Loan Bank Bonds	AAA	S&P		11/24/2017	989,350
Federal Home Loan Bank Bonds	AAA	S&P		12/15/2017	986,400
Total Federal Home Loan Bank Bonds			18.94%		\$ 2,953,680
Federal Farm Credit Banks	AAA		6.42%	02/02/2015	\$ 1,002,460
Federal National Mortgage Association	AAA	S&P		07/27/2017	\$ 1,000,720
Federal National Mortgage Association	AAA			02/17/2015	2,007,466
Total Federal National Mortgage Association			19.29%		\$ 3,008,186
Investment pools/mutual funds					
Wells Fargo - Advantage Prime Fund	AAA	S&P	N/A	N/A	\$ 12,863
MAGIC Fund	N/R	N/A	N/A	N/A	1,673,210
Total investment pools/mutual funds					\$ 1,686,073
Negotiable certificates of deposit					
GE Money Bank	N/A	N/A	N/A	08/12/2011	\$ 244,904
CIT Bank	N/A	N/A	N/A	05/16/2011	97,719
Sallie Mae Bank	N/A	N/A	N/A	05/20/2011	97,739
Carolina First Bank	N/A	N/A	N/A	05/31/2011	97,802
Beal Bank	N/A	N/A	N/A	05/18/2011	245,132
Capmark Bank	N/A	N/A	N/A	07/15/2011	246,908
Compass Bank	N/A	N/A	N/A	07/15/2011	165,303
Total negotiable certificates of deposit					\$ 1,195,507
Total investments					\$ 15,593,411
Deposits					12,955,793
Petty cash and change funds					6,000
Total Cash and Investments					\$ 28,555,204

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables, net of uncollectible amounts, as of December 31, 2010, for the County's governmental activities and business-type activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 556,093	\$ -
Special assessments	18,612	16,787
Due from other governments	1,383,743	-
Accounts	2,148,910	-
Interest	87,932	-
Loans	120,260	120,260
Deposits	25,000	25,000
	\$ 4,340,550	\$ 162,047
Business-Type Activities		
Accounts	\$ 21,794	\$ -

An allowance for uncollectible receivables related to timber sales is included in the above figures. The allowance at December 31, 2010, is \$183,015.

3. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 2,520,469	\$ 5,128	\$ -	\$ 2,525,597
Construction in progress	377,791	172,578	102,218	448,151
	\$ 2,898,260	\$ 177,706	\$ 102,218	\$ 2,973,748
Capital assets depreciated				
Buildings	\$ 14,787,092	\$ 44,665	\$ -	\$ 14,831,757
Machinery, furniture, and equipment	8,494,773	328,120	243,592	8,579,301
Infrastructure	68,860,159	4,635,814	-	73,495,973
	\$ 92,142,024	\$ 5,008,599	\$ 243,592	\$ 96,907,031

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 5,589,897	\$ 372,410	\$ -	\$ 5,962,307
Machinery, furniture, and equipment	6,299,152	474,147	233,005	6,540,294
Infrastructure	15,111,396	1,429,448	-	16,540,844
Total accumulated depreciation	\$ 27,000,445	\$ 2,276,005	\$ 233,005	\$ 29,043,445
Total capital assets depreciated, net	\$ 65,141,579	\$ 2,732,594	\$ 10,587	\$ 67,863,586
Governmental Activities Capital Assets, Net	\$ 68,039,839	\$ 2,910,300	\$ 112,805	\$ 70,837,334

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 15,400	\$ -	\$ -	\$ 15,400
Construction in progress	1,000	-	-	1,000
Total capital assets not depreciated	\$ 16,400	\$ -	\$ -	\$ 16,400
Capital assets depreciated				
Buildings	\$ 5,714,118	\$ -	\$ -	\$ 5,714,118
Machinery, furniture, and equipment	151,763	-	-	151,763
Total capital assets depreciated	\$ 5,865,881	\$ -	\$ -	\$ 5,865,881
Less: accumulated depreciation for				
Buildings	\$ 1,859,624	\$ 146,093	\$ -	\$ 2,005,717
Machinery, furniture, and equipment	131,413	3,920	-	135,333
Total accumulated depreciation	\$ 1,991,037	\$ 150,013	\$ -	\$ 2,141,050
Total capital assets depreciated, net	\$ 3,874,844	\$ (150,013)	\$ -	\$ 3,724,831
Business-Type Activities Capital Assets, Net	\$ 3,891,244	\$ (150,013)	\$ -	\$ 3,741,231

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	220,791
Public safety		239,884
Highways and streets, including depreciation of infrastructure assets		1,719,615
Health and human services		30,953
Sanitation		14,565
Culture and recreation		3,485
Conservation of natural resources		46,712
Total Depreciation Expense - Governmental Activities	\$	2,276,005
Business-Type Activities		
Long Lake Conservation Center	\$	150,013

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2010, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Forfeited Tax Sale	\$ 316,873	Forfeited tax sale apportionment
	Long Lake Conservation Center	280,531	Fund deficit cash balance
	Health and Human Services	10,854	Services provided
Total Due to General Fund		\$ 608,258	
Road and Bridge Fund	Nonmajor governmental funds	23,449	Services provided
Nonmajor governmental funds	Forfeited Tax Sale	397,060	Forfeited tax sale apportionment
Total Due To/From Other Funds		\$ 1,028,767	

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2010, consisted of the following:

Transfers to General Fund from Forfeited Tax Sale Fund	\$ 394,835	Forfeited tax sale apportionment and transfer of funds to cover expenditures Reimburse for expenditure
Nonmajor governmental funds	<u>9,833</u>	
Total transferred to General Fund	<u>\$ 404,668</u>	
Transfers to Road and Bridge Fund from General Fund	\$ 328,779	Cover local share of a road project Provide funds for services Forfeited tax sale apportionment and transfer of funds to cover expenditures
Nonmajor governmental funds	125,487	
Forfeited Tax Sale Fund	<u>166,971</u>	
Total transferred to Road and Bridge Fund	<u>\$ 621,237</u>	
Transfer to nonmajor governmental funds from Forfeited Tax Sale Fund	<u>\$ 445,596</u>	Forfeited tax sale apportionment and transfer of funds to cover expenditures
Total Interfund Transfers	<u>\$ 1,471,501</u>	

C. Liabilities

1. Long-Term Debt

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2010
2005 General Obligation Jail Refunding Bonds	2014	\$260,000 - \$335,000	5.00	\$ 2,920,000	\$ 1,430,000
1999B General Obligation Revenue Notes	2014	\$50,000	0.00	<u>50,000</u>	<u>50,123</u>
Total General Obligation Bonds and Notes				<u>\$ 2,970,000</u>	<u>\$ 1,480,123</u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

1. Long-Term Debt

Governmental Activities (Continued)

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2010</u>
2000 Clean Water Partnership Project Notes	2013	\$3,386	2.00	\$ 32,450	\$ 8,766
1999 Minnesota Department of Agriculture Loans	2019	\$73,930	0.00	\$ 73,930	\$ 73,930
2001 Minnesota Department of Agriculture Loans	2018	\$54,867	0.00	54,867	54,867
Total Minnesota Department of Agriculture Loans				\$ 128,797	\$ 128,797
2006 Minnesota Department of Natural Resources Land Exchange Loan	2011	\$290,000	0.00	\$ 290,000	\$ 290,000

2. Debt Service Requirements

Debt service requirements at December 31, 2010, were as follows:

Governmental Activities

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>		<u>General Obligation Revenue Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 350,000	\$ 71,500	\$ -	\$ -
2012	365,000	54,000	-	-
2013	380,000	35,750	-	-
2014	335,000	16,750	50,123	-
Totals	\$ 1,430,000	\$ 178,000	\$ 50,123	\$ -

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Debt Service Requirements (Continued)

Year Ending December 31	Clean Water Partnership Project Notes of 2000		Minnesota Department of Agriculture Loans of 1999	
	Principal	Interest	Principal	Interest
2011	\$ 3,454	\$ 158	\$ -	\$ -
2012	3,523	89	-	-
2013	1,789	18	-	-
2014	-	-	-	-
2015	-	-	-	-
2016 - 2019	-	-	73,930	-
Totals	\$ 8,766	\$ 265	\$ 73,930	\$ -

Year Ending December 31	Minnesota Department of Agriculture Loans of 2001		Minnesota Department of Natural Resources Land Exchange Loan of 2006		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ -	\$ -	\$ 290,000	\$ -	\$ 643,454	\$ 71,658
2012	-	-	-	-	368,523	54,089
2013	-	-	-	-	381,789	35,768
2014	-	-	-	-	385,123	16,750
2015	-	-	-	-	-	-
2016 - 2019	54,867	-	-	-	128,797	-
Totals	\$ 54,867	\$ -	\$ 290,000	\$ -	\$ 1,907,686	\$ 178,265

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and notes payable					
Bonds	\$ 1,760,000	\$ -	\$ 330,000	\$ 1,430,000	\$ 350,000
Bond premium	104,280	-	20,855	83,425	-
G.O. revenue notes	50,123	-	-	50,123	-
Certificates of participation	115,000	-	115,000	-	-
Total bonds and notes payable	\$ 2,029,403	\$ -	\$ 465,855	\$ 1,563,548	\$ 350,000

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Changes in Long-Term Liabilities

Governmental Activities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Clear Water Partnership Project Notes of 1999	10,595	-	10,595	-	-
Clear Water Partnership Project Notes of 2000	12,152	-	3,386	8,766	3,454
Minnesota Department of Agriculture Loans of 1999	73,930	-	-	73,930	-
Minnesota Department of Agriculture Loans of 2001	54,867	-	-	54,867	-
Minnesota Department of Natural Resources Land Exchange Loan of 2006	290,000	-	-	290,000	290,000
Compensated absences	847,675	1,124,124	1,067,000	904,799	-
 Governmental Activities Long-Term Liabilities	 \$ 3,318,622	 \$ 1,124,124	 \$ 1,546,836	 \$ 2,895,910	 \$ 643,454

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 15,157	\$ 33,148	\$ 28,356	\$ 19,949	\$ -

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all General 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 General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund, 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 the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

6.00 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members were required to contribute 9.40 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2010:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.00
Public Employees Police and Fire Fund	14.10
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2010, 2009, and 2008, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, were:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
General Employees Retirement Fund	\$ 571,551	\$ 573,744	\$ 505,637
Public Employees Police and Fire Fund	160,615	155,283	136,125
Public Employees Correctional Fund	95,804	93,818	91,464

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

B. Defined Contribution Plan

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

**AITKIN COUNTY
AITKIN, 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. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2010, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 7,160	\$ 7,160
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance.

There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

**AITKIN COUNTY
AITKIN, MINNESOTA**

5. Risk Management (Continued)

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 \$450,000 per claim in both 2010 and 2011. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

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

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

A summary of the financial information of the Northeast Minnesota Office of Job Training’s government-wide statements for June 30, 2010, was:

Total Assets	\$ 3,505,892
Total Liabilities	2,139,107
Total Net Assets	1,366,785
Total Revenues	7,896,886
Total Expenses	7,918,774
Change in Net Assets	(21,888)

Separate financial information can be obtained from:

Northeast Minnesota Office of Job Training
820 North 9th Street, Suite 210
Virginia, Minnesota 55792

Northern Counties Land Use Board

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

AITKIN COUNTY
AITKIN, MINNESOTA

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northern Counties Land Use Board (Continued)

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

A summary of the financial statements at December 31, 2010, is shown below:

Total Assets	\$ 108,124
Total Liabilities	800
Total Fund Balance	107,324
Total Revenues	21,250
Total Expenses	9,419
Change in Net Assets	11,831

Aitkin County provided no funding to this organization during 2010.

Separate financial information can be obtained from:

Northern Counties Land Use Board
P. O. Box 136
Ranier, Minnesota 56668

Joint County Natural Resources Board

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Joint County Natural Resources Board (Continued)

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

In the event of dissolution of the Joint County Natural Resources Board, the net assets of the Joint County Natural Resources Board at that time shall be distributed to the respective member counties in proportion to the contribution of each. Aitkin County contributed \$1,500 during 2010 to the Joint County Natural Resources Board.

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

Complete financial information can be obtained from:

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

Aitkin-Itasca-Koochiching Community Health Services Board

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

The Community Health Services Board is composed of two members from Aitkin and Koochiching Counties and three members from Itasca County, each appointed by the participating counties. Itasca County maintains the accounting records of the Community Health Services Board. Funding is obtained through federal, state, local, and private sources. Aitkin County provided no funding to this organization during 2010.

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Aitkin-Itasca-Koochiching Community Health Services Board (Continued)

Complete financial information can be obtained from:

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

Mississippi Headwaters Board

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

The Mississippi Headwaters Board consists of eight members, one appointed from each participating county. Cass County maintains the accounting records of the Board. Funding is obtained through federal, state, local, and private sources. Aitkin County provided \$1,500 to this organization during 2010.

Complete financial information can be obtained from:

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

Snake River Watershed Management Board

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Snake River Watershed Management Board (Continued)

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

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

Aitkin County provided \$10,079 to this organization during 2010. Upon dissolution, the personal property shall be returned to the member county contributing the same.

Complete financial information can be obtained from:

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

Minnesota Counties Information System (MCIS)

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

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Minnesota Counties Information System (MCIS) (Continued)

Separate financial information can be obtained from:

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

C. Jointly-Governed Organizations

Aitkin County Family Services Collaborative

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

Aitkin Municipal Airport Commission

The Aitkin Municipal Airport Commission is authorized by Minn. Stat. ch. 360. The Airport Commission is governed by a five-member Board of Directors--three members are appointed by the Aitkin County Board, and two are appointed by the City of Aitkin. The proprietary interest in the Airport Commission's assets is divided two-thirds to Aitkin County and one-third to the City of Aitkin as per the contractual agreement. All cash of the Airport Commission is on deposit with the City of Aitkin at December 31, 2010.

D. Minnesota Community Capital Fund

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

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

E. Tax-Forfeited Land

The County manages approximately 221,453 acres of state-owned, tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs, such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

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REQUIRED SUPPLEMENTARY INFORMATION

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**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 6,528,061	\$ 6,528,061	\$ 5,322,244	\$ (1,205,817)
Licenses and permits	122,116	122,116	131,718	9,602
Intergovernmental	1,332,880	1,332,880	2,355,176	1,022,296
Charges for services	1,054,820	1,054,820	1,654,615	599,795
Fines and forfeits	28,250	28,250	-	(28,250)
Gifts and contributions	200	200	250	50
Investment earnings	800,000	800,000	438,680	(361,320)
Miscellaneous	358,303	358,303	273,090	(85,213)
Total Revenues	\$ 10,224,630	\$ 10,224,630	\$ 10,175,773	\$ (48,857)
Expenditures				
Current				
General government				
Commissioners	\$ 220,146	\$ 220,146	\$ 220,641	\$ (495)
Courts	63,600	63,600	94,913	(31,313)
County administration	315,579	315,579	277,529	38,050
County auditor	586,757	586,757	449,623	137,134
Motor vehicle	-	-	135,730	(135,730)
County treasurer	212,972	212,972	202,904	10,068
County assessor	733,746	733,746	697,484	36,262
Elections	103,554	103,554	126,281	(22,727)
Data processing	444,845	444,845	464,159	(19,314)
Central services	310,898	310,898	107,484	203,414
Attorney	834,453	834,453	825,415	9,038
Recorder	222,555	222,555	241,960	(19,405)
Planning and zoning	360,222	360,222	329,292	30,930
Buildings and plant	65,000	65,000	17,962	47,038
Maintenance	358,301	358,301	320,228	38,073
Veterans service officer	77,684	77,684	89,300	(11,616)
Motor pool	30,788	30,788	82,980	(52,192)
Housing and development	1,500	1,500	1,365	135
Total general government	\$ 4,942,600	\$ 4,942,600	\$ 4,685,250	\$ 257,350

**AITKIN COUNTY
AITKIN, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,903,504	\$ 1,903,504	\$ 1,879,194	\$ 24,310
Boat and water safety	73,501	73,501	96,018	(22,517)
Snowmobile	30,988	30,988	25,293	5,695
Coroner	50,000	50,000	45,213	4,787
E-911 system	42,290	42,290	120,667	(78,377)
Community corrections	2,383,211	2,383,211	2,598,007	(214,796)
Crime victim	47,377	47,377	66,244	(18,867)
Civil defense	23,805	23,805	45,888	(22,083)
Juvenile detention	-	-	28,749	(28,749)
Other public safety	16,914	16,914	65,087	(48,173)
Total public safety	\$ 4,571,590	\$ 4,571,590	\$ 4,970,360	\$ (398,770)
Sanitation				
Solid waste	\$ 251,263	\$ 251,263	\$ 208,418	\$ 42,845
Environmental health	70,649	70,649	71,341	(692)
Total sanitation	\$ 321,912	\$ 321,912	\$ 279,759	\$ 42,153
Health				
Water wells	\$ 5,773	\$ 5,773	\$ 8,170	\$ (2,397)
Culture and recreation				
Historical society	\$ 17,555	\$ 17,555	\$ 17,632	\$ (77)
Parks	464,524	464,524	560,938	(96,414)
Regional library	227,052	227,052	226,567	485
Tourism	21,300	21,300	23,322	(2,022)
Total culture and recreation	\$ 730,431	\$ 730,431	\$ 828,459	\$ (98,028)
Conservation of natural resources				
Cooperative extension	\$ 72,981	\$ 72,981	\$ 89,804	\$ (16,823)
Soil and water conservation	112,434	112,434	171,941	(59,507)
Agricultural inspections	4,800	4,800	7,490	(2,690)
Agricultural society/County fair	15,075	15,075	-	15,075
Total conservation of natural resources	\$ 205,290	\$ 205,290	\$ 269,235	\$ (63,945)

**AITKIN COUNTY
AITKIN, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Community development	\$ 915	\$ 915	\$ 1,138	\$ (223)
Airports	21,220	21,220	21,220	-
Other	84,096	84,096	50,644	33,452
Total economic development	\$ 106,231	\$ 106,231	\$ 73,002	\$ 33,229
Debt service				
Principal	\$ -	\$ -	\$ 118,386	\$ (118,386)
Interest	\$ -	\$ -	\$ 3,619	\$ (3,619)
Total Expenditures	\$ 10,883,827	\$ 10,883,827	\$ 11,236,240	\$ (352,413)
Excess of Revenues Over (Under)				
Expenditures	\$ (659,197)	\$ (659,197)	\$ (1,060,467)	\$ (401,270)
Other Financing Sources (Uses)				
Transfers in	\$ 416,100	\$ 416,100	\$ 404,668	\$ (11,432)
Transfers out	-	-	(328,779)	(328,779)
Total Other Financing Sources (Uses)	\$ 416,100	\$ 416,100	\$ 75,889	\$ (340,211)
Change in Fund Balance	\$ (243,097)	\$ (243,097)	\$ (984,578)	\$ (741,481)
Fund Balance - January 1	15,569,407	15,569,407	15,569,407	-
Fund Balance - December 31	\$ 15,326,310	\$ 15,326,310	\$ 14,584,829	\$ (741,481)

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,144,512	\$ 2,144,512	\$ 1,767,974	\$ (376,538)
Intergovernmental	6,133,920	6,133,920	6,942,995	809,075
Charges for services	722,200	722,200	231,300	(490,900)
Miscellaneous	20,000	20,000	31,502	11,502
Total Revenues	\$ 9,020,632	\$ 9,020,632	\$ 8,973,771	\$ (46,861)
Expenditures				
Current				
Highways and streets				
Administration	\$ 446,051	\$ 446,051	\$ 446,432	\$ (381)
Engineering	537,717	537,717	512,079	25,638
Maintenance	2,566,764	2,566,764	2,835,961	(269,197)
Construction	5,872,400	5,872,400	4,300,779	1,571,621
Equipment and maintenance shops	283,500	283,500	-	283,500
Total Expenditures	\$ 9,706,432	\$ 9,706,432	\$ 8,095,251	\$ 1,611,181
Excess of Revenues Over (Under) Expenditures	\$ (685,800)	\$ (685,800)	\$ 878,520	\$ 1,564,320
Other Financing Sources (Uses)				
Transfers in	-	-	621,237	621,237
Change in Fund Balance	\$ (685,800)	\$ (685,800)	\$ 1,499,757	\$ 2,185,557
Fund Balance - January 1	2,112,111	2,112,111	2,112,111	-
Increase (decrease) in reserved for inventories	-	-	66,771	66,771
Fund Balance - December 31	\$ 1,426,311	\$ 1,426,311	\$ 3,678,639	\$ 2,252,328

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
HEALTH AND HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,673,113	\$ 2,673,113	\$ 2,200,161	\$ (472,952)
Intergovernmental	2,846,313	2,846,313	3,349,448	503,135
Charges for services	32,050	32,050	44,229	12,179
Miscellaneous	500,743	500,743	604,600	103,857
Total Revenues	\$ 6,052,219	\$ 6,052,219	\$ 6,198,438	\$ 146,219
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,537,834	\$ 1,537,834	\$ 1,479,353	\$ 58,481
Social services	4,066,841	4,066,841	3,991,895	74,946
Total human services	\$ 5,604,675	\$ 5,604,675	\$ 5,471,248	\$ 133,427
Health				
Women, infants, and children	\$ 3,205	\$ 3,205	\$ 3,013	\$ 192
Nursing service	20,150	20,150	43,491	(23,341)
Transportation	52,000	52,000	44,400	7,600
Maternal and child health	19,891	19,891	17,995	1,896
Miscellaneous	565,978	565,978	570,665	(4,687)
Total health	\$ 661,224	\$ 661,224	\$ 679,564	\$ (18,340)
Total Expenditures	\$ 6,265,899	\$ 6,265,899	\$ 6,150,812	\$ 115,087
Excess of Revenues Over (Under)				
Expenditures	\$ (213,680)	\$ (213,680)	\$ 47,626	\$ 261,306
Fund Balance - January 1	4,507,046	4,507,046	4,507,046	-
Fund Balance - December 31	\$ 4,293,366	\$ 4,293,366	\$ 4,554,672	\$ 261,306

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
FORFEITED TAX SALE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 290,000	\$ 290,000	\$ 283,506	\$ (6,494)
Charges for services	30,000	30,000	29,752	(248)
Miscellaneous	1,326,500	1,326,500	1,691,661	365,161
Total Revenues	\$ 1,646,500	\$ 1,646,500	\$ 2,004,919	\$ 358,419
Expenditures				
Current				
General government				
Law library	\$ 41,100	\$ 41,100	\$ 23,658	\$ 17,442
Conservation of natural resources				
County development	\$ 174,153	\$ 174,153	\$ 168,327	\$ 5,826
Forfeited tax	1,300,500	1,300,500	842,786	457,714
Total conservation of natural resources	\$ 1,474,653	\$ 1,474,653	\$ 1,011,113	\$ 463,540
Total Expenditures	\$ 1,515,753	\$ 1,515,753	\$ 1,034,771	\$ 480,982
Excess of Revenues Over (Under) Expenditures	\$ 130,747	\$ 130,747	\$ 970,148	\$ 839,401
Other Financing Sources (Uses)				
Transfers out	(65,000)	(65,000)	(1,007,402)	(942,402)
Change in Fund Balance	\$ 65,747	\$ 65,747	\$ (37,254)	\$ (103,001)
Fund Balance - January 1	2,061,432	2,061,432	2,061,432	-
Fund Balance - December 31	\$ 2,127,179	\$ 2,127,179	\$ 2,024,178	\$ (103,001)

**AITKIN COUNTY
AITKIN, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2010**

1. Budgetary Information

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

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

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

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2010, expenditures exceeded appropriations in the General Fund by \$352,413. These expenditures in excess of appropriations were funded by the use of fund balance.

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SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

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**AITKIN COUNTY
AITKIN, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

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

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

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

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

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	<u>Special Revenue Funds</u>		
	<u>Forest Development</u>	<u>Unorganized Road, Bridge, and Fire</u>	<u>Ditch</u>
<u>Assets</u>			
Cash and pooled investments	\$ 1,388,167	\$ 441,460	\$ 25,670
Taxes receivable			
Prior	-	2,407	-
Special assessments receivable			
Prior	-	-	1,825
Noncurrent	-	-	16,787
Due from other funds	372,505	24,555	-
Due from other governments	17,423	-	-
Total Assets	\$ 1,778,095	\$ 468,422	\$ 44,282
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 9,322	\$ 246	\$ 200
Salaries payable	5,231	-	-
Due to other funds	-	16,537	6,912
Due to other governments	-	6	-
Deferred revenue - unavailable	-	1,949	18,612
Total Liabilities	\$ 14,553	\$ 18,738	\$ 25,724
Fund Balances			
Reserved for environmental uses	\$ -	\$ -	\$ -
Unreserved			
Designated for debt service	-	-	-
Undesignated	1,763,542	449,684	18,558
Total Fund Balances	\$ 1,763,542	\$ 449,684	\$ 18,558
Total Liabilities and Fund Balances	\$ 1,778,095	\$ 468,422	\$ 44,282

EXHIBIT B-1

<u>Land Exchange Revolving Loan</u>	<u>Total</u>	<u>Debt Service Fund Jail Bond</u>	<u>Permanent Fund Environmental</u>	<u>Total Nonmajor Governmental Funds (Exhibit 3)</u>
\$ 144,167	\$ 1,999,464	\$ 196,002	\$ 484,937	\$ 2,680,403
-	2,407	21,465	-	23,872
-	1,825	-	-	1,825
-	16,787	-	-	16,787
-	397,060	-	-	397,060
160,000	177,423	-	-	177,423
<u>\$ 304,167</u>	<u>\$ 2,594,966</u>	<u>\$ 217,467</u>	<u>\$ 484,937</u>	<u>\$ 3,297,370</u>
\$ -	\$ 9,768	\$ -	\$ -	\$ 9,768
-	5,231	-	-	5,231
-	23,449	-	-	23,449
-	6	-	-	6
-	20,561	17,439	-	38,000
<u>\$ -</u>	<u>\$ 59,015</u>	<u>\$ 17,439</u>	<u>\$ -</u>	<u>\$ 76,454</u>
\$ -	\$ -	\$ -	\$ 484,937	\$ 484,937
-	-	200,028	-	200,028
304,167	2,535,951	-	-	2,535,951
<u>\$ 304,167</u>	<u>\$ 2,535,951</u>	<u>\$ 200,028</u>	<u>\$ 484,937</u>	<u>\$ 3,220,916</u>
<u>\$ 304,167</u>	<u>\$ 2,594,966</u>	<u>\$ 217,467</u>	<u>\$ 484,937</u>	<u>\$ 3,297,370</u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Special Revenue Funds</u>		
	<u>Forest Development</u>	<u>Unorganized Road, Bridge, and Fire</u>	<u>Ditch</u>
Revenues			
Taxes	\$ -	\$ 69,459	\$ -
Licenses and permits	49,459	-	-
Special assessments	-	-	1,513
Intergovernmental	307,136	40,682	-
Investment earnings	-	-	59
Miscellaneous	11,424	20	-
Total Revenues	<u>\$ 368,019</u>	<u>\$ 110,161</u>	<u>\$ 1,572</u>
Expenditures			
Current			
General government	\$ -	\$ 1,445	\$ -
Public safety	-	19,066	-
Conservation of natural resources	757,860	-	3,830
Debt service			
Principal	-	-	-
Interest	-	-	-
Total Expenditures	<u>\$ 757,860</u>	<u>\$ 20,511</u>	<u>\$ 3,830</u>
Excess of Revenues Over (Under)			
Expenditures	<u>\$ (389,841)</u>	<u>\$ 89,650</u>	<u>\$ (2,258)</u>
Other Financing Sources (Uses)			
Transfers in	\$ 372,505	\$ 24,555	\$ 48,536
Transfers out	-	(99,016)	(26,471)
Total Other Financing Sources (Uses)	<u>\$ 372,505</u>	<u>\$ (74,461)</u>	<u>\$ 22,065</u>
Net Change in Fund Balance	<u>\$ (17,336)</u>	<u>\$ 15,189</u>	<u>\$ 19,807</u>
Fund Balance - January 1	<u>1,780,878</u>	<u>434,495</u>	<u>(1,249)</u>
Fund Balance - December 31	<u>\$ 1,763,542</u>	<u>\$ 449,684</u>	<u>\$ 18,558</u>

EXHIBIT B-2

<u>Land Exchange Revolving Loan</u>	<u>Total</u>	<u>Debt Service Fund Jail Bond</u>	<u>Permanent Fund Environmental</u>	<u>Total Nonmajor Governmental Funds (Exhibit 5)</u>
\$ -	\$ 69,459	\$ 364,426	\$ -	\$ 433,885
-	49,459	-	-	49,459
-	1,513	-	-	1,513
-	347,818	59,475	-	407,293
99	158	-	12,302	12,460
-	11,444	-	-	11,444
<u>\$ 99</u>	<u>\$ 479,851</u>	<u>\$ 423,901</u>	<u>\$ 12,302</u>	<u>\$ 916,054</u>
\$ -	\$ 1,445	\$ -	\$ -	\$ 1,445
-	19,066	-	-	19,066
-	761,690	-	-	761,690
-	-	330,000	-	330,000
-	-	88,000	-	88,000
<u>\$ -</u>	<u>\$ 782,201</u>	<u>\$ 418,000</u>	<u>\$ -</u>	<u>\$ 1,200,201</u>
<u>\$ 99</u>	<u>\$ (302,350)</u>	<u>\$ 5,901</u>	<u>\$ 12,302</u>	<u>\$ (284,147)</u>
\$ -	\$ 445,596	\$ -	\$ -	\$ 445,596
-	(125,487)	-	(9,833)	(135,320)
<u>\$ -</u>	<u>\$ 320,109</u>	<u>\$ -</u>	<u>\$ (9,833)</u>	<u>\$ 310,276</u>
\$ 99	17,759	5,901	2,469	26,129
<u>304,068</u>	<u>2,518,192</u>	<u>194,127</u>	<u>482,468</u>	<u>3,194,787</u>
<u>\$ 304,167</u>	<u>\$ 2,535,951</u>	<u>\$ 200,028</u>	<u>\$ 484,937</u>	<u>\$ 3,220,916</u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
FOREST DEVELOPMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 5,000	\$ 5,000	\$ 49,459	\$ 44,459
Intergovernmental	161,000	161,000	307,136	146,136
Miscellaneous	140,050	140,050	11,424	(128,626)
Total Revenues	\$ 306,050	\$ 306,050	\$ 368,019	\$ 61,969
Expenditures				
Current				
Conservation of natural resources				
Forest resource	\$ 106,036	\$ 106,036	\$ 194,304	\$ (88,268)
Reforestation	358,790	358,790	292,990	65,800
Memorial forest	244,093	244,093	243,874	219
Forest road	40,253	40,253	26,692	13,561
Total Expenditures	\$ 749,172	\$ 749,172	\$ 757,860	\$ (8,688)
Excess of Revenues Over (Under) Expenditures	\$ (443,122)	\$ (443,122)	\$ (389,841)	\$ 53,281
Other Financing Sources (Uses)				
Transfers in	268,650	268,650	372,505	103,855
Change in Fund Balance	\$ (174,472)	\$ (174,472)	\$ (17,336)	\$ 157,136
Fund Balance - January 1	1,780,878	1,780,878	1,780,878	-
Fund Balance - December 31	\$ 1,606,406	\$ 1,606,406	\$ 1,763,542	\$ 157,136

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT B-4

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
UNORGANIZED ROAD, BRIDGE, AND FIRE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 60,040	\$ 60,040	\$ 69,459	\$ 9,419
Intergovernmental	-	-	40,682	40,682
Miscellaneous	-	-	20	20
Total Revenues	\$ 60,040	\$ 60,040	\$ 110,161	\$ 50,121
Expenditures				
Current				
General government				
Other general government	\$ 1,740	\$ 1,740	\$ 1,445	\$ 295
Public safety				
Emergency services	18,300	18,300	19,066	(766)
Total Expenditures	\$ 20,040	\$ 20,040	\$ 20,511	\$ (471)
Excess of Revenues Over (Under) Expenditures	\$ 40,000	\$ 40,000	\$ 89,650	\$ 49,650
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 24,555	\$ 24,555
Transfers out	(40,000)	(40,000)	(99,016)	(59,016)
Total Other Financing Sources (Uses)	\$ (40,000)	\$ (40,000)	\$ (74,461)	\$ (34,461)
Change in Fund Balance	\$ -	\$ -	\$ 15,189	\$ 15,189
Fund Balance - January 1	434,495	434,495	434,495	-
Fund Balance - December 31	\$ 434,495	\$ 434,495	\$ 449,684	\$ 15,189

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT B-5

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ -	\$ -	\$ 1,513	\$ 1,513
Investment earnings	21,112	21,112	59	(21,053)
Total Revenues	\$ 21,112	\$ 21,112	\$ 1,572	\$ (19,540)
Expenditures				
Current				
Conservation of natural resources				
Other	3,693	3,693	3,830	(137)
Excess of Revenues Over (Under) Expenditures	\$ 17,419	\$ 17,419	\$ (2,258)	\$ (19,677)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 48,536	\$ 48,536
Transfers out	-	-	(26,471)	(26,471)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 22,065	\$ 22,065
Change in Fund Balance	\$ 17,419	\$ 17,419	\$ 19,807	\$ 2,388
Fund Balance - January 1	(1,249)	(1,249)	(1,249)	-
Fund Balance - December 31	\$ 16,170	\$ 16,170	\$ 18,558	\$ 2,388

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT B-6

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
JAIL BOND DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 442,575	\$ 442,575	\$ 364,426	\$ (78,149)
Intergovernmental	-	-	59,475	59,475
Total Revenues	\$ 442,575	\$ 442,575	\$ 423,901	\$ (18,674)
Expenditures				
Debt service				
Principal	\$ 315,000	\$ 315,000	\$ 330,000	\$ (15,000)
Interest	95,875	95,875	88,000	7,875
Total Expenditures	\$ 410,875	\$ 410,875	\$ 418,000	\$ (7,125)
Change in Fund Balance	\$ 31,700	\$ 31,700	\$ 5,901	\$ (25,799)
Fund Balance - January 1	194,127	194,127	194,127	-
Fund Balance - December 31	\$ 225,827	\$ 225,827	\$ 200,028	\$ (25,799)

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FIDUCIARY FUNDS

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**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 537,054	\$ 9,322,464	\$ 9,285,756	\$ 573,762
<u>Liabilities</u>				
Due to other governments	\$ 537,054	\$ 9,322,464	\$ 9,285,756	\$ 573,762
 <u>COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 132,238	\$ 61,884	\$ 82,850	\$ 111,272
<u>Liabilities</u>				
Accounts payable	\$ 132,238	\$ 61,884	\$ 82,850	\$ 111,272
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 117,910	\$ 3,114,129	\$ 3,089,829	\$ 142,210
<u>Liabilities</u>				
Due to other governments	\$ 117,910	\$ 3,114,129	\$ 3,089,829	\$ 142,210

**AITKIN COUNTY
AITKIN, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ (1,025)	\$ 23,581,870	\$ 23,581,026	\$ (181)
Due from other governments	1,025	181	1,025	181
Total Assets	\$ -	\$ 23,582,051	\$ 23,582,051	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 23,582,051	\$ 23,582,051	\$ -
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 786,177	\$ 36,080,347	\$ 36,039,461	\$ 827,063
Due from other governments	1,025	181	1,025	181
Total Assets	\$ 787,202	\$ 36,080,528	\$ 36,040,486	\$ 827,244
<u>Liabilities</u>				
Accounts payable	\$ 132,238	\$ 61,884	\$ 82,850	\$ 111,272
Due to other governments	654,964	36,018,644	35,957,636	715,972
Total Liabilities	\$ 787,202	\$ 36,080,528	\$ 36,040,486	\$ 827,244

OTHER SCHEDULES

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**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Governmental Funds	Enterprise Fund	Total Primary Government
Shared Revenue			
State			
Highway users tax	\$ 3,718,354	\$ -	\$ 3,718,354
PERA rate reimbursement	28,165	1,888	30,053
Disparity reduction aid	10,540	-	10,540
Police aid	125,749	-	125,749
County program aid	311,483	-	311,483
Market value credit	610,267	-	610,267
Taconite credit	569,273	-	569,273
Enhanced 911	97,034	-	97,034
Total shared revenue	\$ 5,470,865	\$ 1,888	\$ 5,472,753
Reimbursement for Services			
State			
Minnesota Department of Human Services	\$ 692,732	\$ -	\$ 692,732
Payments			
Local			
Local contributions	\$ 51,124	\$ -	\$ 51,124
Payments in lieu of taxes	1,166,130	-	1,166,130
Total payments	\$ 1,217,254	\$ -	\$ 1,217,254
Grants			
State			
Minnesota Department/Board of Public Safety	\$ 43,280	\$ -	\$ 43,280
Health	93,292	-	93,292
Natural Resources	467,969	2,840	470,809
Human Services	540,779	-	540,779
Water and Soil Resources	56,941	-	56,941
Office of Environmental Assistance	55,950	-	55,950
Total state	\$ 1,258,211	\$ 2,840	\$ 1,261,051
Federal			
Department of Agriculture	\$ 189,483	\$ -	\$ 189,483
Transportation	2,888,660	-	2,888,660
Health and Human Services	1,602,687	-	1,602,687
Homeland Security	18,526	-	18,526
Total federal	\$ 4,699,356	\$ -	\$ 4,699,356
Total state and federal grants	\$ 5,957,567	\$ 2,840	\$ 5,960,407
Total Intergovernmental Revenue	\$ 13,338,418	\$ 4,728	\$ 13,343,146

**AITKIN COUNTY
AITKIN, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2010**

	Assets			
	Cash	Special Assessments Receivable	Due from Other Ditches	Total
County Ditches				
5	\$ (11,140)	\$ -	\$ -	\$ (11,140)
20	(747)	-	-	(747)
21	(421)	-	-	(421)
23	(443)	-	-	(443)
24	(23,458)	369	1,500	(21,589)
25	(240)	-	-	(240)
28	(2,144)	-	-	(2,144)
30	28,376	1,294	11,861	41,531
34	796	978	-	1,774
36	2,755	1,208	-	3,963
37	(2,463)	8,425	-	5,962
42	(1,518)	-	-	(1,518)
43	(76)	-	-	(76)
58	(130)	-	-	(130)
63	1,513	6,175	-	7,688
66	1,670	-	-	1,670
Judicial Ditch				
2	12,303	163	-	12,466
Diversion Channel	21,037	-	-	21,037
Total	\$ 25,670	\$ 18,612	\$ 13,361	\$ 57,643

EXHIBIT D-2

	Liabilities				Total	Fund Balance	Total Liabilities and Fund Balance
	Accounts Payable	Due to Other Funds	Deferred Revenue	Due to Other Ditches			
\$ -	\$ -	\$ -	\$ 7,250	\$ 7,250	\$ (18,390)	\$ (11,140)	
-	-	-	-	-	(747)	(747)	
-	-	-	-	-	(421)	(421)	
-	-	-	-	-	(443)	(443)	
200	-	369	-	569	(22,158)	(21,589)	
-	-	-	-	-	(240)	(240)	
-	-	-	1,287	1,287	(3,431)	(2,144)	
-	-	1,294	-	1,294	40,237	41,531	
-	-	978	65	1,043	731	1,774	
-	-	1,208	65	1,273	2,690	3,963	
-	-	8,425	2,173	10,598	(4,636)	5,962	
-	-	-	935	935	(2,453)	(1,518)	
-	-	-	76	76	(152)	(76)	
-	-	-	-	-	(130)	(130)	
-	6,912	6,175	-	13,087	(5,399)	7,688	
-	-	-	1,510	1,510	160	1,670	
-	-	163	-	163	12,303	12,466	
-	-	-	-	-	21,037	21,037	
\$ 200	\$ 6,912	\$ 18,612	\$ 13,361	\$ 39,085	\$ 18,558	\$ 57,643	

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT D-3

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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	\$ 60,695
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster		
State Administrative Matching Grants for SNAP	10.561	124,178
State Administrative Matching Grants for SNAP - ARRA	10.561	<u>4,610</u>
Total U.S. Department of Agriculture		<u>\$ 189,483</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster		
Highway Planning and Construction	20.205	\$ 1,436,286
Highway Planning and Construction A81- ARRA	20.205	<u>1,328,992</u>
Total U.S. Department of Transportation		<u>\$ 2,765,278</u>
U.S. Department of Health and Human Services		
Passed Through Arrowhead Regional Development Commission National Family Caregiver Support, Title III, Part E	93.052	\$ 16,215
Passed Through Minnesota Department of Health Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	82,209
Maternal and Child Health Services Block Grant to the States	93.994	23,250
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	8,335
Temporary Assistance for Needy Families	93.558	283,252
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	446,748
Child Support Enforcement - ARRA	93.563	20,534
Refugee and Entrant Assistance	93.566	156
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	11,549
Child Care Welfare Services - State Grants	93.645	1,192
Foster Care Title IV-E Cluster		
Foster Care Title IV-E	93.658	132,238
Foster Care Title IV-E - ARRA	93.658	941

**AITKIN COUNTY
AITKIN, MINNESOTA**

**EXHIBIT D-3
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services (Continued)		
Social Services Block Grant	93.667	119,942
Chafee Foster Care Independence Program	93.674	2,396
Children's Health Insurance Program	93.767	167
Medical Assistance Program	93.778	<u>453,563</u>
Total U.S. Department of Health and Human Services		\$ <u>1,602,687</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	<u>\$ 18,526</u>
Total Federal Awards		\$ <u><u>4,575,974</u></u>

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AITKIN COUNTY
AITKIN, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Aitkin County under programs of the federal government for the year ended December 31, 2010. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Aitkin County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Aitkin County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 4,699,356
Grants received more than 90 days after year-end, deferred in 2010	
Highway Planning and Construction	316,982
Deferred in 2009, recognized as revenue in 2010	
Highway Planning and Construction	<u>(440,364)</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 4,575,974</u>

5. Subrecipients

During 2010, the County did not pass any federal money to subrecipients.

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. American Recovery and Reinvestment Act

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

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**AITKIN COUNTY
AITKIN, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Aitkin County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Aitkin County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Aitkin County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Aitkin County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:
- | | |
|---|--------------|
| Highway Planning and Construction Cluster | |
| Highway Planning and Construction | CFDA #20.205 |
| Highway Planning and Construction - ARRA | CFDA #20.205 |
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Aitkin County was not 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

96-5 Segregation of Duties

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

- Someone independent of the cash collection and receipting function and the cash disbursement function should prepare bank reconciliations. If this is not possible, someone independent of these functions should review the bank reconciliations.

- Individuals who collect and receipt cash should not also:
 - post cash receipts to the general ledger system,
 - process cash disbursements,
 - maintain the general ledger,
 - make bank deposits,
 - make wire transfers,
 - make general journal entries, or
 - prepare billings.

- Individuals who process vouchers for payments should not also:
 - print or sign checks or
 - make journal entries.

The County Treasurer does not segregate the duties of cash collection and receipting from the bank reconciliation process. In the County Auditor's Office, employees who receipt cash and process cash disbursements have the ability to make journal entries.

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

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

Client's Response:

County management is aware of this situation. However, the County lacks the resources to staff departments to levels needed to provide segregation of functions. County management will review internal controls and transactions. Receipting procedures have been modified to allow for greater control and review.

06-2 Preparation of Financial Statements

The County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal controls over both: (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.

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 arrangement is not unusual for an organization the size of Aitkin County. This decision was based on the availability of the County's staff and the cost benefit of using our office rather than to prepare the financial statements internally. The County has made strides in this direction by preparing the fund trial balances and many of the worksheets needed in summarizing the financial information, but still relies on its auditors to complete the financial statements. As a result of this condition, the government lacks internal control over the preparation of financial statements in accordance with GAAP.

We recommend County accounting staff obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If the County still intends to have 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. As an alternative, the County could consider hiring an outside consultant to assist in preparing its basic financial statements.

Client's Response:

The County will explore solutions to the issuance of its own financial statements. The Auditor's Office is now preparing the trial balance, receivable and payable summaries, capital assets, and other schedules.

06-3 Accounting Policies and Procedures Manual

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

An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

We recommend the County establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority.

Client's Response:

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

06-5 Budgeting

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

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

We recommend the County Board adopt a budget policy to include the elements recommended above. Department heads and the County Board should monitor budgets on an ongoing basis.

Client's Response:

The County follows a defined budget process, where parameters are established by the County Board. Budgets are reviewed by County administration and the County Board prior to adoption. Currently, the County Board and County department heads receive budget reports on a monthly basis or upon request.

06-8 Computer Risk Management

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

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

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

Client's Response:

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

ITEM ARISING THIS YEAR

10-1 Preparation of the Schedule of Expenditures of Federal Awards

The Office of Management and Budget's (OMB) Circular A- 133, *Audits of States, Local Governments, and Non-Profit Organizations, Auditee Responsibilities* subpart C §.300, requires, "The auditee shall (a) identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity; and (d) shall prepare appropriate financial statements, including the schedule of expenditures of federal awards in accordance with subpart C §.310."

Aitkin County does not prepare a Schedule of Expenditures of Federal Awards (SEFA), nor does it adequately identify federal programs by amount received and expended, federal grantor agency, pass-through agency, and Catalog of Federal Domestic Assistance (CFDA) title and number as required under OMB Circular A-133. In addition, Aitkin County is not properly identifying federal revenues in the general ledger system.

This condition results in a deficiency in internal control over financial statement preparation and the reporting of federal financial assistance by the County. Since the County has not developed procedures for properly identifying all federal financial assistance, the County relies on its auditors for assistance with preparing the SEFA. Independent auditors cannot be considered part of the County's internal control over financial reporting.

We recommend that Aitkin County management develop a process, including written procedures, which allow staff to adequately identify federal revenues and accumulate the information needed to prepare the SEFA. Specific measures could include having departments informing accounting/finance when they have received a grant award, holding in suspense accounts until properly identified as to nature and source any intergovernmental revenue receipts, properly classifying the receipts into appropriate federal revenue accounts in the general ledger system, and comparison of the prior year SEFA to the current year. For each federal award identified, the County should determine the correct program CFDA title and number, award number and year, federal grantor agency, pass-through agency, amount received and expended, and whether American Recovery and Reinvestment Act funding is involved. The federal CFDA website is available to assist in this process. Those responsible for compiling the SEFA should obtain the training necessary (through courses or reference materials) to

understand the components of the SEFA and properly gather the correct information and maintain supporting documentation. The County should also reconcile the SEFA amounts to the general ledger and financial statements.

Client's Response:

The County will review the requirements for tracking, preparing, reconciling, and reporting federal funding awards.

PREVIOUSLY REPORTED ITEMS RESOLVED

Segregation of Duties Within the Auditor's and Treasurer's Offices (06-1)

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

Resolution

This finding was combined with finding 96-5.

Payroll (06-6)

Controls were in place for processing payroll. However, after master file changes were made and payroll was run, there was not a review of the final payroll runs and changes to the master files from someone independent of the payroll processing function.

Resolution

The County Treasurer's staff now reviews the payroll payments. The Human Resources Department reviews and approves employee changes in status and pay. In addition, the County Auditor reviews annual payroll reports for propriety and investigates any unusual items noted.

Audit Adjustments (06-10)

During the prior audit, material audit adjustments were needed in the Road and Bridge Special Revenue Fund to adjust receivables, revenue, and deferred revenue related to road construction projects.

Resolution

During the current audit, County personnel completed an analysis of road and bridge construction projects and the related funding, and made the necessary journal entries. No material audit adjustments were required.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-3 Ditch Fund Balance Deficits

Twelve of the 18 individual ditch systems had deficit unreserved, undesignated fund balances as of December 31, 2010, totaling \$58,600, the largest being \$22,158. The County Board authorized a transfer in December 2010 which eliminated some of the deficit balances, but some still remain. As provided by Minn. Stat. § 103E.735, subd. 1, a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

We recommend that the County eliminate the ditch system fund balance deficits by either authorizing additional transfers or levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, and repay the solvent ditch funds for the intrafund loans.

Client's Response:

The County Board authorized sufficient a transfer of funds to clear up the remaining ditch deficits in 2011.

06-11 Long Lake Conservation Center Deficit Cash Balance

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

The year-end deficit cash balances for the Long Lake Conservation Center have been large for a number of years. The balance of the deficit has been as follows:

December 31, 2010	\$	280,531
December 31, 2009		251,016
December 31, 2008		141,151

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

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

Client's Response:

The County Board is aware of the cash deficit in the operating fund for Long Lake. The Board receives quarterly reports on the status of LLCC finances. In 2009, the County Board took action to reduce operating expenses in an effort to reduce the accumulating deficits.

B. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for Aitkin County for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance are reserved, unreserved-designated, and unreserved-undesignated. Statement 54 replaces these components with nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

The County should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The County can start with the following steps:

- review the requirements of GASB Statement 54;
- review current fund balances and compare to the new classifications;
- reclassify January 1, 2011, fund balance using the new classifications;
- review/update/prepare a comprehensive fund balance policy;
- prepare appropriate Board resolutions to commit fund balance; and
- if the Board of County Commissioners intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in the new standard. The new definition for a special revenue fund could have significant impact on the County's current fund classifications.

GASB Statement 54 provides a new and clearer description of when it is appropriate to account for an activity using a special revenue fund. Special revenue funds are used to report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects, where the restricted or committed revenue sources comprise a substantial portion of the fund's resources, and are expected to continue to do so in the future. The standard does not define substantial portion; however, most recommendations are generally that the restricted or committed revenues should comprise at least 35 to 50 percent of total fund revenues. Under this definition, it is possible that some current special revenue funds will no longer meet the requirements for special revenue fund treatment. The County's management should review the County's special revenue funds to ensure these funds continue to warrant treatment as special revenue funds.

The County's management should perform the following steps prior to December 31, 2011:

- prepare a list of the County's special revenue funds;
- determine the sources of revenues for each of those funds;
- identify whether any of those revenues are restricted or committed;
- determine if these restricted or committed revenues represent a substantial portion of the fund's revenues and are expected to continue to be a substantial source of revenues;
 - if yes, the fund may continue to be classified as a special revenue fund;
 - if not, determine whether the County will combine that fund with the general fund or with a similar purpose special revenue fund that meets the new definition;
- code revenues in the general ledger by source constraints--restricted, committed, assigned, or unassigned; and
- determine if there needs to be a restatement of beginning fund balances.

Additional implementation steps could include: informing any component units that they also will need to meet the requirements; deciding on how fund balance will be presented in the financials, such as detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at:

http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

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

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

Board of County Commissioners
Aitkin County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Aitkin County as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 96-5, 06-2, 06-3, 06-5, 06-8, and 10-1, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, 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 Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing as the cities administer the tax increment financing in Aitkin County.

The results of our tests indicate that for the items tested, Aitkin County complied with the material terms and conditions of applicable legal provisions.

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

Aitkin County's written responses to the internal control and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

September 27, 2011

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Count Commissioners
Aitkin County

Compliance

We have audited Aitkin County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. Aitkin County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Aitkin County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

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

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

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

September 27, 2011