

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MORRISON COUNTY
LITTLE FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2011

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

Year Ended December 31, 2011



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

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

**ORGANIZATION SCHEDULE
2011**

Office	Name	Term of Office	
		From	To
Commissioners			
1st District	Thomas R. Wenzel	January 2009	January 2012
2nd District	Jeff Schilling	January 2009	January 2012
3rd District	Richard Collins	January 2009	January 2012
4th District	Donald Meyer	January 2011	January 2014
5th District	Duane Johnson ¹	January 2011	January 2014
Officers			
Elected			
Attorney	Brian Middendorf	January 2011	January 2014
Auditor/Treasurer	Russ Nygren	January 2011	January 2014
Recorder	Elda Mae Johnston	January 2011	January 2014
Sheriff	Michel Wetzel	January 2011	January 2014
Appointed			
Assessor	Glen Erickson	December 2010	December 2013
Corrections	Nicole Kern		Indefinite
County Administrator	Deb Gruber		Indefinite
Court Administrator	Rhonda Bot		Indefinite
Extension	Susanne Hinrichs		Indefinite
Information Systems	Mike Disher		Indefinite
Planning and Zoning Director	Mark Anderson		Indefinite
Public Health Director	Bonnie Paulsen		Indefinite
Public Works Director	Steven Backowski	May 2009	May 2012
Social Services Director	Brad Vold		Indefinite
Veterans Service Officer	Paul Froncak	July 2009	July 2014

¹Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Morrison County

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Morrison County, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Morrison County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Housing and Redevelopment Authority (HRA) of Morrison County, a discretely presented component unit, which represents 22 percent, 22 percent, and 40 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the HRA of Morrison County, is based solely on the report of the other auditors.

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 and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Morrison County as of December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Morrison County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended December 31, 2011. GASB Statement 54 provides clearer fund balance classifications that can be more consistently applied and clarifies existing governmental fund type definitions.

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 GASB, 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 Morrison County's basic financial statements as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, 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 presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12 2012, on our consideration of Morrison County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. It does not include the HRA of Morrison County, which was audited by other auditors.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 12, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(Unaudited)**

This section of Morrison County's annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on December 31, 2011. The Management's Discussion and Analysis (MD&A) is required supplementary information specified in the Governmental Accounting Standard Board's Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, issued in June 1999. Certain comparative information between the current year, 2011, and the prior year, 2010, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2011 fiscal year include the following:

- County-wide net assets increased 2.5 percent over the prior year.
- Overall fund level revenues totaled \$38,813,799 and were \$2,466,372 less than expenditures.
- The General Fund's fund balance increased \$906,971 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

**Figure A-1
Annual Report Format**

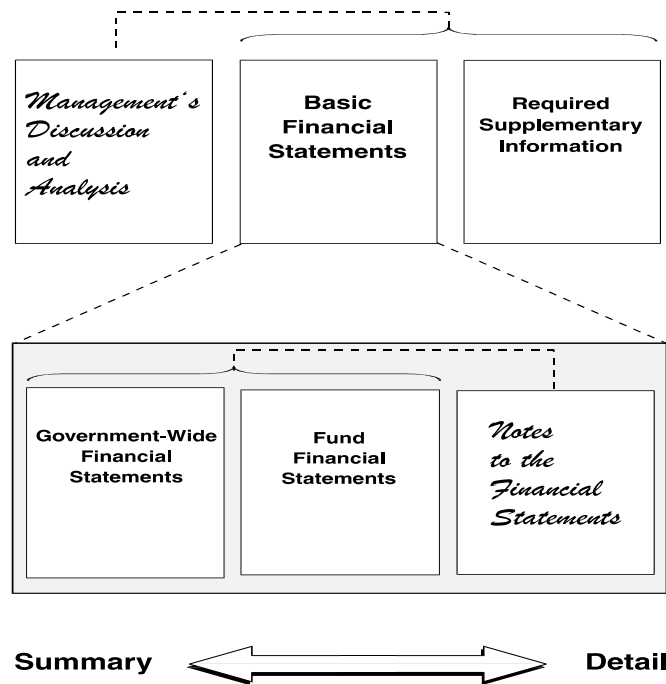


Figure A-2 summarizes the major features of the County’s financial statements, including the portion of the County’s activities they cover and the types of information they contain. The remainder of this overview section of the MD&A highlights the structure and contents of each of the statements.

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

County-Wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

The County has two kinds of funds:

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

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

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Assets

The County's net assets were \$108,404,492 on December 31, 2011. (See Table A-1.)

	Table A-1		Percent (%) Change
	Net Assets		
	Governmental Activities		
	2011	2010	
Current and other assets	\$ 30,413,630	\$ 29,550,311	2.9
Capital and noncurrent assets	96,979,448	96,049,805	1.0
Total Assets	\$ 127,393,078	\$ 125,600,116	1.4
Current liabilities	\$ 1,364,563	\$ 1,508,618	(9.5)
Long-term liabilities	17,624,023	18,294,729	(3.7)
Total Liabilities	\$ 18,988,586	\$ 19,803,347	(4.1)
Net Assets			
Invested in capital assets, net of related debt	\$ 89,290,324	\$ 87,643,983	1.9
Restricted	6,321,734	7,038,341	(10.2)
Unrestricted	12,792,434	11,114,445	15.1
Total Net Assets	\$ 108,404,492	\$ 105,796,769	2.5

Changes in Net Assets

The total county-wide revenues on a full accrual basis were \$38,567,886 for the year ended December 31, 2011. Property taxes and intergovernmental revenues accounted for 83.1 percent of total revenue for the year. (See Table A-2.)

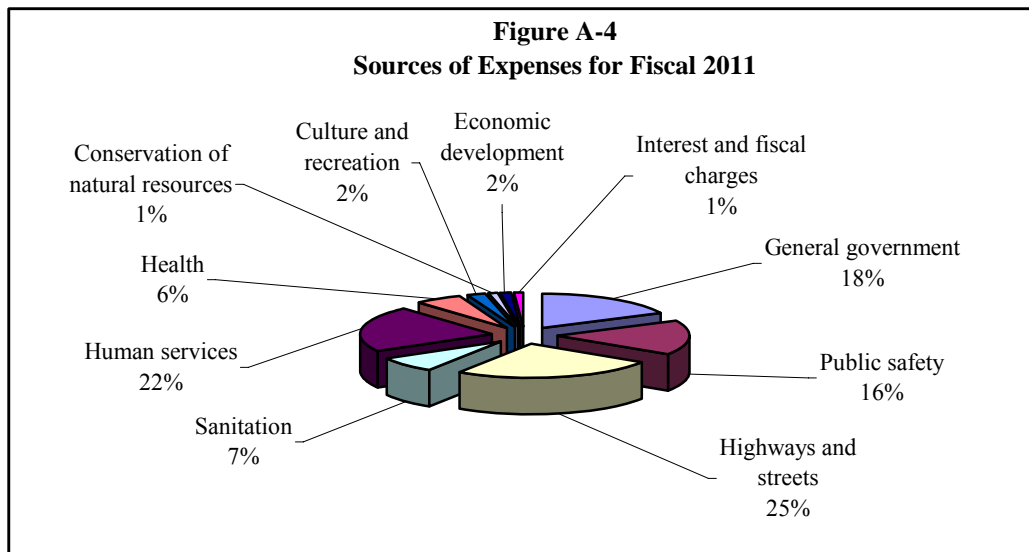
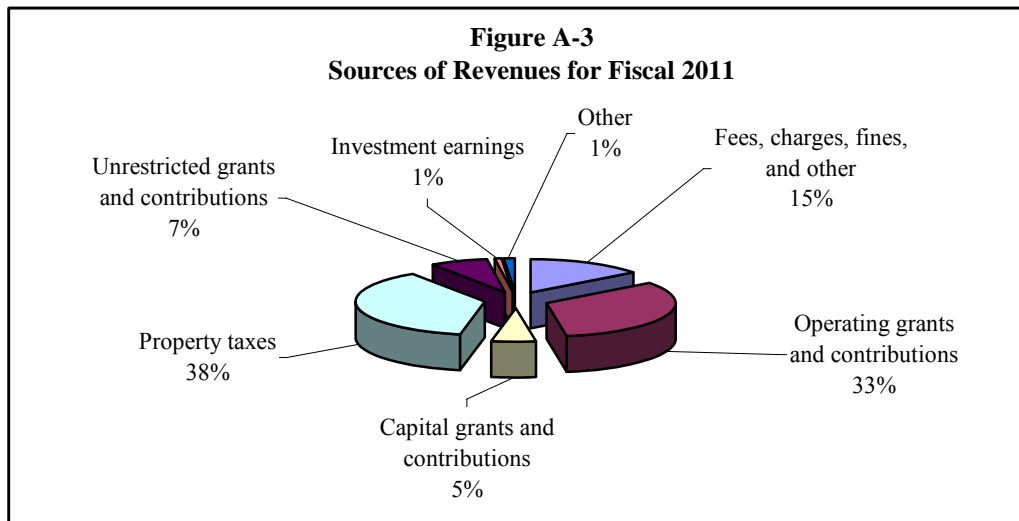
Table A-2
Changes in Net Assets

	Governmental Activities		Percent (%) Change
	2011	2010	
Revenues			
Program revenues			
Fees, charges, fines, and other	\$ 5,657,659	\$ 5,623,261	0.6
Operating grants and contributions	12,699,831	11,685,975	8.7
Capital grants and contributions	2,087,205	920,725	126.7
General revenues			
Property taxes	14,434,713	14,208,395	1.6
Unrestricted grants and contributions	2,833,454	2,839,385	(0.2)
Investment earnings	316,409	446,574	(29.1)
Other	538,615	853,291	(36.9)
Total Revenues	\$ 38,567,886	\$ 36,577,606	5.4
Expenses			
General government	\$ 6,402,698	\$ 6,126,999	4.5
Public safety	5,909,071	5,395,015	9.5
Highways and streets	8,946,386	7,872,793	13.6
Sanitation	2,679,626	7,402,798	(63.8)
Human services	7,848,783	7,768,729	1.0
Health	2,118,215	2,086,979	1.5
Culture and recreation	752,204	603,540	24.6
Conservation of natural resources	373,467	410,659	(9.1)
Economic development	563,389	62,786	797.3
Interest and fiscal charges on long-term liabilities	366,324	501,073	(26.9)
Total Expenses	\$ 35,960,163	\$ 38,231,371	(5.9)
Increase (Decrease) in Net Assets	\$ 2,607,723	\$ (1,653,765)	257.7
Beginning Net Assets	105,796,769	107,450,534	(1.5)
Ending Net Assets	\$ 108,404,492	\$ 105,796,769	2.5

Total revenues were more than expenses, increasing net assets \$2,607,723 over the prior year.

The County-wide cost of all governmental activities this year was \$35,960,163.

- Some of the cost was paid by the users of the County’s programs (\$5,657,659).
- The federal and state governments subsidized certain programs with grants and contributions (\$14,787,036).
- The remaining County costs (\$15,515,468), however, were paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$14,434,713 in property taxes, \$2,833,454 of state aid, and \$855,024 with investment earnings and other general revenues.



**Table A-3
Cost of Services**

	Total Cost of Services		Percent (%) Change	Net Cost of (Revenue from) Services		Percent (%) Change
	2011	2010		2011	2010	
General government	\$ 6,402,698	\$ 6,126,999	4.5	\$ 4,890,120	\$ 4,884,274	0.1
Public safety	5,909,071	5,395,015	9.5	5,174,715	4,414,137	17.2
Highways and streets	8,946,386	7,872,793	13.6	503,593	1,310,083	(61.6)
Sanitation	2,679,626	7,402,798	(63.8)	580,958	5,286,402	(89.0)
Human services	7,848,783	7,768,729	1.0	2,724,883	2,457,369	10.9
Health	2,118,215	2,086,979	1.5	442,331	271,157	63.1
Culture and recreation	752,204	603,540	24.6	597,708	603,540	(1.0)
Conservation of natural resources	373,467	410,659	(9.1)	173,334	215,738	(19.7)
Economic development	563,389	62,786	797.3	61,502	57,637	6.7
Interest	366,324	501,073	(26.9)	366,324	501,073	(26.9)
Total	\$ 35,960,163	\$ 38,231,371	(5.9)	\$ 15,515,468	\$ 20,001,410	(22.4)

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL

The financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance of \$25,952,901.

Revenues for the County’s governmental funds were \$38,813,799, while total expenditures were \$41,280,171. During 2011, the County issued new debt for the 800 Megahertz Project in the amount of \$1,540,000 and refunding bonds of \$1,290,000.

GENERAL FUND

The General Fund includes the primary operations of the County in providing services to citizens and some capital outlay projects. The following schedule presents a summary of General Fund revenues.

**Table A-4
General Fund Revenues**

	Year Ended December 31		Change	
	2011	2010	Increase (Decrease)	Percent (%)
Taxes	\$ 8,028,704	\$ 7,943,831	\$ 84,873	1.1
Intergovernmental	4,004,776	3,397,073	607,703	17.9
Charges for services	1,761,229	2,228,937	(467,708)	(21.0)
Investment income	227,657	310,597	(82,940)	(26.7)
Miscellaneous and other	838,015	861,781	(23,766)	(2.8)
Total General Fund Revenues	\$ 14,860,381	\$ 14,742,219	\$ 118,162	0.8

Total General Fund revenue increased by \$118,162, or 0.8 percent, from the previous year. The mix of property tax and state aid can change significantly from year to year without any net change in revenue. Charges for services decreased in 2011 by \$467,708, mainly due to a decrease in the number of inmates from other jurisdictions being housed in the County jail. Interest on investments was also down due to lower interest rates.

The following schedule presents a summary of General Fund expenditures.

**Table A-5
General Fund Expenditures**

	Year Ended December 31		Amount of Increase (Decrease)	Percent (%) Increase (Decrease)
	2011	2010		
General government	\$ 5,724,341	\$ 5,670,084	\$ 54,257	1.0
Public safety	5,787,024	5,403,858	383,166	7.1
Health	2,111,602	2,057,121	54,481	2.6
Culture and recreation	208,553	48,471	160,082	330.3
Conservation of natural resources	363,130	401,256	(38,126)	(9.5)
Economic development	43,532	49,607	(6,075)	(12.2)
Intergovernmental	973,841	479,648	494,193	103.0
Debt service	37,387	-	37,387	-
Total Expenditures	\$ 15,249,410	\$ 14,110,045	\$ 1,139,365	8.1

General Fund Budgetary Highlights

- Actual revenues were \$593,680 more than expected, which is mostly due to an increase in pass-through revenue and other grants.
- The actual expenditures were \$958,250 more than budget. This is mainly due to a \$500,000 pass-through economic development loan and 800 Megahertz Project spending that came out of fund balance and new debt service funds.

DEBT SERVICE

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

CAPITAL ASSETS

By the end of 2011, the County had invested over \$155,000,000 in a broad range of capital assets, including buildings, computers, equipment, and infrastructure. (See Table A-6.) More detailed information about capital assets can be found in Note 3.A.2. to the financial statements. Total depreciation expense for the year was \$3,749,597.

**Table A-6
Capital Assets**

	2011	2010	Percent (%) Change
Land	\$ 4,047,389	\$ 3,991,419	1.4
Buildings	22,418,114	22,418,114	-
Machinery, furniture, and equipment	7,185,893	7,047,032	2.0
Infrastructure	121,616,719	117,405,321	3.6
Less: accumulated depreciation	<u>(58,548,985)</u>	<u>(55,019,568)</u>	6.4
Total	<u>\$ 96,719,130</u>	<u>\$ 95,842,318</u>	0.9

LONG-TERM LIABILITIES

At year-end, the County had \$17,624,023 in long-term liabilities outstanding. The County's bonded debt decreased \$930,000 in 2011.

**Table A-7
Long-Term Liabilities**

	2011	2010	Percent (%) Change
General obligation bonds	\$ 12,070,000	\$ 13,000,000	(7.2)
Bond premiums	97,818	107,853	(9.3)
Compensated absences	1,774,153	1,898,000	(6.5)
Net OPEB liability	307,495	229,514	34.0
Estimated liability for landfill closure/postclosure care	<u>3,374,557</u>	<u>3,059,362</u>	10.3
Total	<u>\$ 17,624,023</u>	<u>\$ 18,294,729</u>	(3.7)

FACTORS BEARING ON THE COUNTY'S FUTURE

The County is dependent on the State of Minnesota for a significant portion of its revenue. Recent experience demonstrates that the Legislature may decrease revenues again. This does not take into consideration other programs that are seeing cuts in aid. The economic downturn has had a negative effect on County revenues such as interest income and planning and zoning charges for services. The inability to rent out jail beds to other counties who are building jails and not needing space is also having an impact on future revenues. It should also be noted that unfunded mandates continue to have an impact on County costs. As the State of Minnesota pushes more costs down to the County, the property tax continues to be used to fund these programs that have not been funded with property tax dollars before. In 2012, the state eliminated the Market Value Credit for property taxpayers, who will see on average, an eight percent increase in their property tax bill.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

CONTACTING THE COUNTY'S DISCRETELY PRESENTED COMPONENT UNITS

The Morrison County Rural Development Finance Authority (RDFA) and the Housing and Redevelopment Authority (HRA) of Morrison County are component units of Morrison County and are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from Morrison County. Complete financial statements of the Morrison County RDFA can be obtained at 213 First Avenue S.E., Little Falls, Minnesota 56345-3196. Complete financial statements of the HRA of Morrison County can be obtained by writing to the HRA of Morrison County, 304 - 2nd Street S.E., Little Falls, Minnesota 56345.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

	<u>Primary Government Governmental Activities</u>	<u>Component Units</u>	
		<u>Housing and Redevelopment Authority</u>	<u>Rural Development Finance Authority</u>
<u>Assets</u>			
Cash and pooled investments	\$ 25,282,414	\$ 26,028	\$ 188,050
Restricted cash	-	64,900	-
Petty cash and change funds	11,025	-	-
Departmental cash	2,482	-	-
Taxes receivable			
Delinquent	664,347	-	-
Special assessments receivable			
Delinquent	8,067	-	-
Accounts receivable	337,956	5,350	-
Accrued interest receivable	250,281	-	-
Due from other governments	1,420,967	-	503,795
Loans receivable	-	-	596,700
Inventories	582,319	-	-
Investment in joint venture	1,853,772	-	-
Prepaid items	-	2,600	-
Deferred charges	260,318	-	-
Capital assets			
Non-depreciable	4,047,389	23,500	-
Depreciable - net of accumulated depreciation	92,671,741	241,775	-
Total Assets	\$ 127,393,078	\$ 364,153	\$ 1,288,545
<u>Liabilities</u>			
Accounts payable	\$ 414,558	\$ 3,738	\$ 523,716
Salaries payable	534,704	6,163	-
Contracts payable	173,077	-	-
Due to other governments	87,741	-	-
Accrued interest payable	80,744	509	-
Unearned revenue	73,739	-	-
Noncurrent liabilities			
Due within one year	2,374,734	13,350	-
Due in more than one year	15,249,289	119,568	-
Total Liabilities	\$ 18,988,586	\$ 143,328	\$ 523,716

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

	<u>Primary Government Governmental Activities</u>	<u>Component Units</u>	
		<u>Housing and Redevelopment Authority</u>	<u>Rural Development Finance Authority</u>
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 89,290,324	\$ 134,535	\$ -
Restricted for			
General government	401,181	-	-
Public safety	311,477	-	-
Sanitation	3,286,059	-	-
Economic development	59,374	-	764,829
Debt service	2,263,643	-	-
Section 8 housing	-	64,900	-
Unrestricted	<u>12,792,434</u>	<u>21,390</u>	<u>-</u>
Total Net Assets	<u>\$ 108,404,492</u>	<u>\$ 220,825</u>	<u>\$ 764,829</u>

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 6,402,698	\$ 1,323,298
Public safety	5,909,071	246,296
Highways and streets	8,946,386	438,584
Sanitation	2,679,626	2,097,503
Human services	7,848,783	663,832
Health	2,118,215	886,208
Culture and recreation	752,204	51
Conservation of natural resources	373,467	-
Economic development	563,389	1,887
Interest	366,324	-
	\$ 35,960,163	\$ 5,657,659
Total primary government		
Component units		
Housing and Redevelopment Authority	\$ 673,686	\$ 106,133
Rural Development Finance Authority	\$ 547,325	\$ 501,253

General Revenues

Property taxes
 Payments in lieu of tax
 Grants and contributions not restricted to
 specific programs
 Unrestricted investment earnings
 Miscellaneous
 Gain on sale of capital 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		
		Primary Government Governmental Activities	Component Units	
Operating Grants and Contributions	Capital Grants and Contributions		Housing and Redevelopment Authority	Rural Development Finance Authority
\$ 189,280	\$ -	\$ (4,890,120)		
488,060	-	(5,174,715)		
5,917,004	2,087,205	(503,593)		
1,165	-	(580,958)		
4,460,068	-	(2,724,883)		
789,676	-	(442,331)		
154,445	-	(597,708)		
200,133	-	(173,334)		
500,000	-	(61,502)		
-	-	(366,324)		
\$ 12,699,831	\$ 2,087,205	\$ (15,515,468)		
\$ 614,180	\$ -		\$ 46,627	
\$ 500,000	\$ -			\$ 453,928
		\$ 14,434,713	\$ -	\$ 65,238
		193,603	-	-
		2,833,454	-	7,573
		316,409	41	461
		341,783	-	-
		3,229	-	-
		\$ 18,123,191	\$ 41	\$ 73,272
		\$ 2,607,723	\$ 46,668	\$ 527,200
		105,796,769	174,157	237,629
		\$ 108,404,492	\$ 220,825	\$ 764,829

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 8,524,058	\$ 5,458,062
Petty cash and change funds	5,800	175
Departmental cash	2,392	-
Delinquent taxes receivable	356,377	122,235
Special assessments receivable		
Delinquent	11	-
Accounts receivable	119,795	1,158
Accrued interest receivable	173,559	-
Due from other funds	1,934	1,196
Due from other governments	238,844	746,860
Inventories	-	582,319
	\$ 9,422,770	\$ 6,912,005
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 95,394	\$ 18,573
Salaries payable	320,763	68,995
Contracts payable	24,242	148,835
Due to other funds	-	-
Due to other governments	34,619	1,606
Deferred revenue - unavailable	356,388	772,959
Deferred revenue - unearned	73,739	-
	\$ 905,145	\$ 1,010,968
Fund Balances		
Nonspendable (Note 3.D.1.)	\$ -	\$ 582,319
Restricted (Note 3.D.2.)	712,658	-
Committed (Note 3.D.3.)	385,887	-
Assigned (Note 3.D.4.)	2,633,599	5,318,718
Unassigned	4,785,481	-
	\$ 8,517,625	\$ 5,901,037
Total Fund Balances	\$ 8,517,625	\$ 5,901,037
Total Liabilities and Fund Balances	\$ 9,422,770	\$ 6,912,005

EXHIBIT 3

<u>Social Services</u>	<u>Solid Waste</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 2,854,664	\$ 5,708,152	\$ 2,358,776	\$ 378,702	\$ 25,282,414
5,050	-	-	-	11,025
-	17	73	-	2,482
130,373	7,251	40,065	8,046	664,347
-	8,056	-	-	8,067
88,547	128,456	-	-	337,956
-	76,722	-	-	250,281
-	-	-	-	3,130
416,142	19,121	-	-	1,420,967
-	-	-	-	582,319
<u>\$ 3,494,776</u>	<u>\$ 5,947,775</u>	<u>\$ 2,398,914</u>	<u>\$ 386,748</u>	<u>\$ 28,562,988</u>
\$ 207,017	\$ 79,087	\$ 14,462	\$ 25	\$ 414,558
142,664	2,282	-	-	534,704
-	-	-	-	173,077
1,934	-	-	1,196	3,130
44,178	7,338	-	-	87,741
130,373	15,307	40,065	8,046	1,323,138
-	-	-	-	73,739
<u>\$ 526,166</u>	<u>\$ 104,014</u>	<u>\$ 54,527</u>	<u>\$ 9,267</u>	<u>\$ 2,610,087</u>
\$ -	\$ -	\$ -	\$ -	\$ 582,319
-	3,286,059	2,344,387	59,374	6,402,478
-	-	-	318,107	703,994
2,968,610	2,557,702	-	-	13,478,629
-	-	-	-	4,785,481
<u>\$ 2,968,610</u>	<u>\$ 5,843,761</u>	<u>\$ 2,344,387</u>	<u>\$ 377,481</u>	<u>\$ 25,952,901</u>
<u>\$ 3,494,776</u>	<u>\$ 5,947,775</u>	<u>\$ 2,398,914</u>	<u>\$ 386,748</u>	<u>\$ 28,562,988</u>

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011**

Fund balances - total governmental funds (Exhibit 3)		\$	25,952,901
Amounts reported for governmental activities in the statement of net assets are different because:			
Investments in joint ventures are reported in governmental activities and are not financial resources. Therefore, they are not reported in the governmental funds.			1,853,772
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			96,719,130
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.			1,323,138
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.			
General obligation bonds, net of premium and discount	\$ (12,167,818)		
Compensated absences	(1,774,153)		
Net OPEB liability	(307,495)		
Estimated liability for landfill closure/postclosure care	(3,374,557)		
Deferred debt issuance charges	260,318		
Accrued interest payable	(80,744)		
	(17,444,449)		(17,444,449)
Net Assets of Governmental Activities (Exhibit 1)		\$	108,404,492

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Road and Bridge
Revenues		
Taxes	\$ 8,028,704	\$ 2,554,863
Special assessments	-	-
Licenses and permits	280,039	-
Intergovernmental	4,004,776	8,614,267
Charges for services	1,761,229	366,559
Fines and forfeits	15,620	-
Investment income	227,657	-
Miscellaneous	542,356	72,025
	\$ 14,860,381	\$ 11,607,714
Expenditures		
Current		
General government	\$ 5,724,341	\$ -
Public safety	5,787,024	-
Highways and streets	-	10,072,351
Sanitation	-	-
Human services	-	-
Health	2,111,602	-
Culture and recreation	208,553	-
Conservation of natural resources	363,130	10,304
Economic development	43,532	-
Intergovernmental		
Highways and streets	-	438,695
Culture and recreation	473,841	-
Economic development	500,000	-
Debt service		
Principal	-	-
Interest	-	-
Bond issuance costs	37,387	-
Administrative (fiscal) charges	-	-
	\$ 15,249,410	\$ 10,521,350
Excess of Revenues Over (Under) Expenditures	\$ (389,029)	\$ 1,086,364

EXHIBIT 5

<u>Social Services</u>	<u>Solid Waste</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 2,741,159	\$ 163,690	\$ 746,480	\$ 192,726	\$ 14,427,622
-	2,449	-	-	2,449
-	11,150	-	-	291,189
5,006,337	119,253	146,346	43,771	17,934,750
328,371	2,031,700	-	-	4,487,859
-	-	-	-	15,620
-	88,101	559	92	316,409
335,461	54,653	330,308	3,098	1,337,901
\$ 8,411,328	\$ 2,470,996	\$ 1,223,693	\$ 239,687	\$ 38,813,799
\$ -	\$ -	\$ -	\$ 332,947	\$ 6,057,288
-	-	-	-	5,787,024
-	-	-	-	10,072,351
-	2,329,460	-	-	2,329,460
8,606,566	-	-	-	8,606,566
-	-	-	-	2,111,602
-	-	-	19,042	227,595
-	-	-	-	373,434
-	-	-	19,857	63,389
-	-	-	-	438,695
-	-	-	-	473,841
-	-	-	-	500,000
-	-	3,760,000	-	3,760,000
-	-	405,834	-	405,834
-	-	33,749	-	71,136
-	-	1,956	-	1,956
\$ 8,606,566	\$ 2,329,460	\$ 4,201,539	\$ 371,846	\$ 41,280,171
\$ (195,238)	\$ 141,536	\$ (2,977,846)	\$ (132,159)	\$ (2,466,372)

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>General</u>	<u>Road and Bridge</u>
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ -
Transfers out	(244,000)	-
Bonds issued	1,540,000	-
Refunding bonds issued	-	-
	<hr/>	<hr/>
Total Other Financing Sources (Uses)	\$ 1,296,000	\$ -
	<hr/>	<hr/>
Net Change in Fund Balances	\$ 906,971	\$ 1,086,364
	<hr/>	<hr/>
Fund Balances - January 1, as restated (Note 2.A.)	7,610,654	4,699,491
Increase (decrease) in inventories	-	115,182
	<hr/>	<hr/>
Fund Balances - December 31	\$ 8,517,625	\$ 5,901,037
	<hr/> <hr/>	<hr/> <hr/>

EXHIBIT 5
(Continued)

<u>Social Services</u>	<u>Solid Waste</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ -	\$ -	\$ 57,585	\$ 244,000	\$ 301,585
-	-	-	(57,585)	(301,585)
-	-	-	-	1,540,000
-	-	1,290,000	-	1,290,000
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,347,585</u>	<u>\$ 186,415</u>	<u>\$ 2,830,000</u>
\$ (195,238)	\$ 141,536	\$ (1,630,261)	\$ 54,256	\$ 363,628
3,163,848	5,702,225	3,974,648	323,225	25,474,091
-	-	-	-	115,182
<u>\$ 2,968,610</u>	<u>\$ 5,843,761</u>	<u>\$ 2,344,387</u>	<u>\$ 377,481</u>	<u>\$ 25,952,901</u>

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 363,628

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

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

Deferred revenue - unavailable - December 31	\$ 1,323,138	
Deferred revenue - unavailable - January 1	<u>(1,425,456)</u>	(102,318)

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

Expenditures for general capital assets and infrastructure	\$ 4,722,551	
Net book value of assets sold	(96,142)	
Current year depreciation	<u>(3,749,597)</u>	876,812

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

Current year bond proceeds	\$ (2,830,000)	
Principal repayments/refunding		
General obligation bonds	3,760,000	
Bond issuance costs	71,136	
Current year amortization of issuance costs and premiums	<u>(8,270)</u>	992,866

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

***EXHIBIT 6
(Continued)***

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

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	\$	49,736	
Change in compensated absences		123,847	
Change in estimated liability for landfill closure/postclosure care		(315,195)	
Change in OPEB liability		(77,981)	
Change in inventories		<u>115,182</u>	(104,411)
Transactions to record investment in joint venture			
Change in investment in joint venture			<u>581,146</u>
Change in Net Assets of Governmental Activities (Exhibit 2)			<u>\$ 2,607,723</u>

MORRISON COUNTY
LITTLE FALLS, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2011

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	\$ 1,175,974
Departmental cash	13
Accrued interest receivable	<u>6,861</u>
Total Assets	<u><u>\$ 1,182,848</u></u>
<u>Liabilities</u>	
Due to other governments	<u><u>\$ 1,182,848</u></u>

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Blended Component Unit

Blended component units are entities that are legally separate from the County, but are so intertwined that they are, in substance, the same as the County. They are reported as part of the primary government.

The Morrison County Regional Rail Authority is governed by a five-member board consisting of the Morrison County Commissioners and has the power to levy taxes, issue bonds, and enter into contracts. The Authority was established for the preservation and improvement of local rail service. Although it is legally separate from the County, the activity of the Regional Rail Authority is included in the Morrison County reporting entity as the Regional Rail Authority Special Revenue Fund because Morrison County Commissioners comprise the Authority's governing body. Separate financial statements are not available for the Morrison County Regional Rail Authority.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Units

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

Complete financial statements of the Morrison County RDFA can be obtained by contacting Russ Nygren, Morrison County Auditor/Treasurer, at 212 First Avenue S.E., Little Falls, Minnesota 56345.

The Housing and Redevelopment Authority (HRA) of Morrison County is a component unit of Morrison County and is reported in a separate column in the County's government-wide financial statements to emphasize that the HRA is legally separate from Morrison County. The HRA operates as a local government unit for the purpose of providing housing and redevelopment services to Morrison County. The governing board consists of a five-member board appointed by the Morrison County Commissioners. The financial statements included are as of and for the year ended December 31, 2011.

Complete financial statements of the HRA of Morrison County can be obtained by writing to the Housing and Redevelopment Authority of Morrison County, 304 - 2nd Street S.E., Little Falls, Minnesota 56345.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

2. Fund Financial Statements

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

**MORRISON COUNTY
LITTLE FALLS, 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 accounted for in another fund.

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

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

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

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

Additionally, the County reports the following funds:

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2011, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2011 were \$227,657.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

2. Receivables and Payables

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

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in applicable governmental funds to indicate the asset is not in spendable form.

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

Taxes receivable consist of uncollected taxes payable in the years 2006 through 2011. Taxes receivable are offset by deferred revenue for the amount not collectible within 60 days of December 31 to indicate they are not available to pay current expenditures. No provision has been made for an estimated uncollectible amount.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

Special assessments receivable consist of delinquent special assessments payable in the years 2006 through 2011 and deferred special assessments payable in 2012 and after. No provision has been made for an estimated uncollectible amount.

3. Inventories

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

4. Capital Assets

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

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

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

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

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Compensated Absences

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

6. Deferred Revenue

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

7. Long-Term Obligations

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

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Fund Equity

The County adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended December 31, 2011. This standard changed fund balance classifications within the fund financial statements. In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications are as follows:

Nonspendable is the amount of fund balance that cannot be spent because it is either not in spendable form or is legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted is the amount of fund balance subject to external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments or constraints imposed by law through constitutional provisions and enabling legislation.

Committed is the amount of fund balance that can only be used for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned is the amount of fund balance the County intends to use for specific purposes that does not meet the criteria to be classified as “restricted” or “committed.” In governmental funds other than the General Fund, assigned fund balance represents the remaining amount not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board. The County Board has also adopted a fund balance policy that delegates authority to assign fund balance to the County Administrator and the Accounting and Finance Manager.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

8. Fund Equity (Continued)

Unassigned is the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Further detail on fund balance classifications is available in Note 3.D.

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance amounts, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

9. Use of Estimates

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Restatement of Fund Balance

The implementation of GASB Statement 54 required the County to report the Revolving Loan Special Revenue Fund, previously reported as a nonmajor fund, as part of the General Fund. This results in a restatement of the beginning fund balance for the General Fund and the nonmajor funds as follows:

	General Fund	Nonmajor Funds
Fund Balance - January 1, as previously reported	\$ 7,496,129	\$ 437,750
Reclassification of Revolving Loan Special Revenue Fund	114,525	(114,525)
Fund Balance - January 1, as restated	\$ 7,610,654	\$ 323,225

B. Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget at the function level for the year ended December 31, 2011:

	Expenditures	Final Budget	Excess
General Fund			
Current			
Public Safety	\$ 5,787,024	\$ 5,269,594	\$ 517,430
Health	2,111,602	2,041,553	70,049
Culture and recreation	208,553	55,000	153,553
Conservation of natural resources	363,130	360,986	2,144
Intergovernmental			
Economic development	500,000	-	500,000
Debt Service	37,387	-	37,387
Special Revenue Funds			
Road and Bridge			
Intergovernmental			
Highways and streets	438,695	-	438,695
Social Services			
Current			
Human services	8,606,566	8,333,800	272,766
Solid Waste			
Current			
Sanitation	2,329,460	2,130,588	198,872
County Building			
Current			
General government	332,947	105,080	227,867

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 25,282,414
Petty cash and change funds	11,025
Departmental cash	2,482
Discretely presented component units	
Cash and pooled investments	214,078
Restricted cash	64,900
Statement of fiduciary net assets	
Cash and pooled investments	1,175,974
Departmental cash	13
	<hr/>
Total Cash and Investments	\$ 26,750,886

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.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. It is the County's policy to minimize custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit, and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2011, 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;

**MORRISON COUNTY
LITTLE FALLS, 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.

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. It is the County's policy to minimize investment custodial credit risk by permitting brokers that obtained investments for Morrison County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to Morrison County's custodian. At December 31, 2011, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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. At December 31, 2011, the County had no investments requiring a credit rating.

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

The following table presents the County's deposit and investment balances at December 31, 2011, and information relating to potential investment risk:

<u>Investment Type</u>	<u>Concentration Risk Over 5 Percent of Portfolio</u>	<u>Interest Rate Risk Maturity Date</u>	<u>Carrying (Fair) Value</u>
Primary government			
Negotiable certificates of deposit	3.68%	<1yr	\$ 367,827
MAGIC Fund	96.08	N/A	9,595,976
Money market account with broker	0.24	N/A	23,559
Total investments			\$ 9,987,362

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Concentration Risk <u>Over 5 Percent of Portfolio</u>	Interest Rate Risk <u>Maturity Date</u>	Carrying (Fair) Value
Deposits			16,400,687
Petty cash and change funds			11,025
Departmental cash			2,495
Cash on hand			<u>70,339</u>
Total cash and investments - primary government			\$ 26,471,908
Component units			
Deposits			<u>278,978</u>
Total Cash and Investments			<u>\$ 26,750,886</u>

N/A - Not Applicable

2. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land - infrastructure right-of-way	\$ 1,962,882	\$ 5,970	\$ -	\$ 1,968,852
Land	2,028,537	50,000	-	<u>2,078,537</u>
Total capital assets not depreciated	<u>\$ 3,991,419</u>	<u>\$ 55,970</u>	<u>\$ -</u>	<u>\$ 4,047,389</u>
Capital assets depreciated				
Buildings	\$ 22,418,114	\$ -	\$ -	\$ 22,418,114
Machinery, furniture, and equipment	7,047,032	455,183	316,322	7,185,893
Infrastructure	117,405,321	4,211,398	-	<u>121,616,719</u>
Total capital assets depreciated	<u>\$ 146,870,467</u>	<u>\$ 4,666,581</u>	<u>\$ 316,322</u>	<u>\$ 151,220,726</u>
Less: accumulated depreciation for				
Buildings	\$ 7,799,961	\$ 477,390	\$ -	\$ 8,277,351
Machinery, furniture, and equipment	4,900,033	520,445	220,180	5,200,298
Infrastructure	42,319,574	2,751,762	-	<u>45,071,336</u>
Total accumulated depreciation	<u>\$ 55,019,568</u>	<u>\$ 3,749,597</u>	<u>\$ 220,180</u>	<u>\$ 58,548,985</u>
Total capital assets depreciated, net	<u>\$ 91,850,899</u>	<u>\$ 916,984</u>	<u>\$ 96,142</u>	<u>\$ 92,671,741</u>
Governmental Activities Capital Assets, Net	<u>\$ 95,842,318</u>	<u>\$ 972,954</u>	<u>\$ 96,142</u>	<u>\$ 96,719,130</u>

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Capital Assets (Continued)

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

Governmental activities	
General government	\$ 335,590
Public safety	133,286
Highway and streets, including infrastructure assets	3,121,301
Sanitation	82,387
Human services	8,897
Health	17,195
Culture and recreation	<u>50,941</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 3,749,597</u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2011, was as follows:

1. Due To/From Other Funds

The Social Services Special Revenue Fund owed the General Fund for miscellaneous costs in the amount of \$1,934, and the Regional Rail Authority Special Revenue Fund owed the Road and Bridge Special Revenue Fund \$1,196 for miscellaneous costs.

2. Interfund Transfers

Interfund transfers during 2011 were as follows:

Transfers In	Transfers Out	Amount	Purpose
County Building Fund	General Fund	\$ 244,000	Chiller costs
Debt Service Fund	Regional Rail Authority Fund	<u>57,585</u>	Debt service
Total		<u>\$ 301,585</u>	

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

	Governmental Activities
Accounts	\$ 414,558
Salaries	534,704
Contracts	173,077
Due to other governments	87,741
Accrued interest	80,744
Total Payables	\$ 1,290,824

2. Deferred Revenue

Deferred revenue consists of taxes and special assessments receivable, state grants not collected soon enough after year-end to pay liabilities of the current period, and state and federal grants received but not yet earned. Deferred revenue at December 31, 2011, is summarized below by fund:

	Special Assessments	Taxes	Grants	Total
Major governmental funds				
General	\$ 11	\$ 356,377	\$ 73,739	\$ 430,127
Road and Bridge	-	122,235	650,724	772,959
Social Services	-	130,373	-	130,373
Solid Waste	8,056	7,251	-	15,307
Debt Service	-	40,065	-	40,065
Nonmajor governmental funds				
County Building	-	3,762	-	3,762
County Parks	-	1,030	-	1,030
Regional Rail Authority	-	3,254	-	3,254
Total	\$ 8,067	\$ 664,347	\$ 724,463	\$ 1,396,877
Deferred revenue				
Unavailable	\$ 8,067	\$ 664,347	\$ 650,724	\$ 1,323,138
Unearned	-	-	73,739	73,739
Total	\$ 8,067	\$ 664,347	\$ 724,463	\$ 1,396,877

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Vacation and Sick Leave

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

The County pays unused accumulated paid time off to employees upon termination based on two different severance plans. Unvested paid time off valued at \$503,999 at December 31, 2011, is available to employees in the event of an absence but is not paid to them at termination.

4. Retired Employee Health Insurance Benefits

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

The County recognizes the cost of providing health insurance for postemployment benefits on a pay-as-you-go basis. The County contribution for this benefit, paid by the General Fund for the year ended December 31, 2011, was \$22,400 for the eligible employees.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Long-Term Debt - Bonds

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

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
General obligation bonds					
2006A G.O. Capital Improvement Plan Bonds	2018	\$170,000 - \$230,000	4.00 - 4.25	\$ 1,785,000	\$ 1,440,000
2009A G.O. Capital Improvement Plan Crossover Refunding Bonds	2018	\$395,000 - \$500,000	2.25 - 3.50	3,190,000	3,190,000
2010A G.O. Utility Improvement Plan Bonds	2033	\$155,000 - \$315,000	2.00 - 4.45	4,930,000	4,610,000
2011A G.O. Capital Equipment Notes	2021	\$135,000 - \$225,000	0.50 - 3.00	1,540,000	1,540,000
2011B G.O. Capital Improvement Plan Refunding Bonds	2018	\$210,000 - \$220,000	1.00 - 1.70	<u>1,290,000</u>	<u>1,290,000</u>
Total General Obligation Bonds				<u>\$ 12,735,000</u>	<u>\$ 12,070,000</u>

6. Debt Service Requirements

Debt service requirements at December 31, 2011, were as follows:

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2012	\$ 2,215,000	\$ 330,961
2013	940,000	285,522
2014	955,000	268,525
2015	985,000	248,396
2016	1,000,000	225,783
2017 - 2021	3,135,000	782,495
2022 - 2026	1,140,000	501,268
2027 - 2031	1,385,000	252,414
2032 - 2033	<u>315,000</u>	<u>14,018</u>
Total	<u>\$ 12,070,000</u>	<u>\$ 2,909,382</u>

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 13,000,000	\$ 2,830,000	\$ 3,760,000	\$ 12,070,000	\$ 2,215,000
Bond premiums	107,853	-	10,035	97,818	-
Compensated absences	1,898,000	-	123,847	1,774,153	159,734
Net OPEB liability	229,514	77,981	-	307,495	-
Estimated liability for closure/postclosure	3,059,362	315,195	-	3,374,557	-
Total Long-Term Liabilities	\$ 18,294,729	\$ 3,223,176	\$ 3,893,882	\$ 17,624,023	\$ 2,374,734

On September 1, 2010, the County issued \$3,190,000 in General Obligation Capital Improvement Plan Crossover Refunding Bonds, Series 2009A, with an average interest rate of 2.79 percent, to refund \$3,095,000 of outstanding General Obligation Capital Improvement Plan Bonds, Series 2002A, with an average interest rate of 4.53 percent. The net proceeds of the 2009A bonds were used to refund the 2002A bonds on February 1, 2011. The County refunded the Series 2002A bonds to reduce its total debt service payments by \$119,205 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$106,181.

On November 2, 2011, the County issued \$1,290,000 in General Obligation Capital Improvement Plan Refunding Bonds, Series 2011B, with an average interest rate of 1.34 percent, to refund \$1,440,000 of outstanding General Obligation Capital Improvement Plan Bonds, Series 2006A, with an average interest rate of 4.15 percent. The net proceeds of the 2011B bonds were used to refund the 2006A bonds on February 1, 2012. The County refunded the Series 2006A bonds to reduce its total debt service payments by \$92,888 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$88,577.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

8. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place the final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$3,374,557 landfill closure and postclosure care liability at December 31, 2011, represents the cumulative amount reported to date based on the use of 87.90 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$408,321 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2011. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The County is in compliance with these requirements and is currently making monthly payments for financial assurance to the Solid Waste Special Revenue Fund under financial hardship status. Hardship was granted based on the current Solid Waste Management Plan, which is based on a five-year planning period. In the spring of 1994, Morrison County received approval of its Solid Waste Management Plan, which granted Morrison County ten years of Certificate of Need for solid waste management. At December 31, 2011, the County has restricted net assets of \$3,286,059 to finance closure and postclosure care. The County expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenues.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

9. Other Postemployment Benefits (OPEB)

Plan Description

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

Participants

Participants of the plan consisted of the following at January 1, 2011:

Active employees	247
Retired employees	<u>13</u>
Total Plan Participants	<u><u>260</u></u>

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Morrison County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy.

For fiscal year 2011, the County contributed \$63,038 to the plan; there were approximately 260 participants in the plan.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

9. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table shows the components of the County's annual OPEB cost for 2011, the amount actually contributed to the plan, and changes in the County's net OPEB obligation.

ARC	\$	139,531
Interest on net OPEB obligation		9,181
Adjustment to ARC		(7,693)

Annual OPEB cost	\$	141,019
Contributions during the year		(63,038)

Increase in net OPEB obligation	\$	77,981
Net OPEB Obligation - Beginning of Year		229,514

Net OPEB Obligation - Ending of Year	\$	307,495

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2009	\$ 129,360	\$ 58,964	45.58%	\$ 146,916
December 31, 2010	135,752	53,154	39.16	229,514
December 31, 2011	141,019	63,038	44.70	307,495

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$1,480,004, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,480,004. The covered payroll (annual payroll of active employees covered by the plan) was \$15,220,000, and the ratio of the UAAL to the covered payroll was 10.00 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

9. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the January 1, 2011, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions include a 4.00 percent investment rate of return (net of administrative expenses) and an annual health care cost trend rate of 8.67 percent, reduced by the decrements to an ultimate rate of 5.00 percent after 10 years. The actuarial value of assets was set to equal to the market value of assets. The UAAL is being amortized over 30 years on a closed basis. As of December 31, 2011, the remaining amortization period is 26 years.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

D. Fund Balance

1. Nonspendable Fund Balance

The detail of nonspendable fund balance at December 31, 2011, is as follows:

Road and Bridge Special Revenue Fund Inventory	<u>\$ 582,319</u>
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2. Restricted Fund Balance

The detail of restricted fund balance at December 31, 2011, is as follows:

	General	Solid Waste	Debt Service	Regional Rail Authority
Recorder's technology	\$ 334,653	\$ -	\$ -	\$ -
Economic development	-	-	-	59,374
Landfill closure	-	3,286,059	-	-
Law library	33,875	-	-	-
Attorney forfeitures	32,653	-	-	-
Sheriff forfeitures	16,255	-	-	-
911 programs	295,222	-	-	-
Debt service	-	-	2,344,387	-
Total Restricted	\$ 712,658	\$ 3,286,059	\$ 2,344,387	\$ 59,374

3. Committed Fund Balance

The detail of committed fund balance at December 31, 2011, is as follows:

	General	County Building	County Parks
County building projects	\$ -	\$ 181,588	\$ -
Parks projects	-	-	136,519
Insurance	385,887	-	-
Total Restricted	\$ 385,887	\$ 181,588	\$ 136,519

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

D. Fund Balance (Continued)

4. Assigned Fund Balance

The detail of assigned fund balance at December 31, 2011, is as follows:

	General	Road and Bridge	Social Services	Solid Waste
800 megahertz project	\$ 573,590	\$ -	\$ -	\$ -
General government	487,617	-	-	-
Revolving loan	114,525	-	-	-
Environmental programs	5,179	-	-	-
Jail inmate programs	79,970	-	-	-
Jail upgrades	454,624	-	-	-
Public health programs	256,104	-	-	-
Sheriff programs	11,484	-	-	-
Technology upgrades	190,878	-	-	-
Veterans programs	21,249	-	-	-
Jail PX	75,031	-	-	-
Human services	-	-	2,968,610	-
Attorney's contingency	8,436	-	-	-
Solid waste	-	-	-	2,557,702
Boat and water	19,709	-	-	-
Capital equipment	275,846	-	-	-
DARE	12,582	-	-	-
Election programs	46,775	-	-	-
Highways and streets	-	5,318,718	-	-
	<u>\$ 2,633,599</u>	<u>\$ 5,318,718</u>	<u>\$ 2,968,610</u>	<u>\$ 2,557,702</u>
Total Assigned	<u>\$ 2,633,599</u>	<u>\$ 5,318,718</u>	<u>\$ 2,968,610</u>	<u>\$ 2,557,702</u>

4. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Morrison County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the 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.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

4. 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 yearly 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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

4. 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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 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 2011:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
General Employees Retirement Fund	\$ 700,831	\$ 676,940	\$ 655,637
Public Employees Police and Fire Fund	166,070	160,362	158,091
Public Employees Correctional Fund	83,929	92,331	103,449

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

B. Defined Contribution Plan

Two County Board members of Morrison 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.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

4. 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 their 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 the 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, 2011, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,998	\$ 2,998
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. 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 2011 and \$460,000 per claim in 2012. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

B. Joint Ventures

1. Central Minnesota Community Corrections Agency

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

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

The Central Minnesota Community Corrections Agency is funded through state grants and contributions from Aitkin, Crow Wing, and Morrison Counties. Morrison County had expenditures of \$175,899 for community corrections in 2011.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

1. Central Minnesota Community Corrections Agency (Continued)

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

Complete financial information can be obtained from:

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

2. Little Falls-Morrison County Airport Commission

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

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

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

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

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

Morrison County provided \$21,459 in funding to the Commission during 2011. Financial information for the Commission can be obtained from:

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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

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

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

4. Morrison County Interagency Coordinating Council

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

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

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

5. Central Minnesota Emergency Medical Services Region

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

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

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

Complete financial information can be obtained from:

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

6. South Country Health Alliance

The South Country Health Alliance (SCHA) was created by a joint powers agreement between Brown, Dodge, Freeborn, Goodhue, Kanabec, Mower, Sibley, Steele, Wabasha, and Waseca Counties on July 24, 1998, under Minn. Stat. § 471.59. Mower County has since withdrawn. Effective January 1, 2011, Cass, Crow Wing and Freeborn Counties opted out of the SCHA, consistent with the terms of the joint powers agreement. The agreement was formed in accordance with Minn. Stat. § 256B.692, which allows the formation of a board of directors to operate, control, and manage all matters concerning the participating counties' health care functions, referred to as county-based purchasing.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

6. South Country Health Alliance (Continued)

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

Each member county has an explicit and measurable right to its share of the total capital surplus of the SCHA. Gains and losses are allocated annually to all members based on the percentage of their utilization. The County's equity interest in the SCHA at December 31, 2011, was \$1,853,772. The equity interest is reported as an investment in joint venture on the government-wide statement of net assets. Changes in equity are included in the government-wide statement of activities as human services expenses.

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

Brian V. Hicks, SCHA CFO
2300 Park Drive, Suite 100
P. O. Box 890
Owatonna, Minnesota 55060

6. Housing and Redevelopment Authority of Morrison County

A. Summary of Significant Accounting Policies

1. Financial Reporting Entity

The Housing and Redevelopment Authority (HRA) of Morrison County is a component unit of Morrison County and is reported in a separate column in the County's financial statements to emphasize that the HRA is a legally separate entity from Morrison County. The HRA of Morrison County operates as a local government unit for the purpose of providing housing and redevelopment services

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

6. Housing and Redevelopment Authority of Morrison County

A. Summary of Significant Accounting Policies

1. Financial Reporting Entity (Continued)

to the local area. The governing body consists of a five-member board appointed by the County. The financial statements included are as of and for the year ended December 31, 2011.

2. Budget Information

The HRA adopts an estimated revenue and expense budget for each fund. Comparisons of estimated revenues and budgeted expenses to actual are not presented in the financial statements. Amendments to the original budget require board approval. Appropriations lapse at year-end. The HRA does not use encumbrance accounting.

3. Assets, Liabilities, and Fund Equity Accounts

Cash and Cash Equivalents

Investments are stated at fair value, except for non-negotiable certificates of deposit, which are on a cost basis, and short-term money market investments, which are stated at amortized cost. All checking, savings, certificates of deposit, and cash on hand are included in cash for the cash flow statement.

Prepaid Items

Prepaid expenses present the unexpired premium on insurance policies.

Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of each fund involved.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

6. Housing and Redevelopment Authority of Morrison County

A. Summary of Significant Accounting Policies

3. Assets, Liabilities, and Fund Equity Accounts (Continued)

Capital Assets

Capital assets, which includes property, buildings, and furniture and equipment, are reported in the applicable business-type activities columns in the government-wide financial statements, and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant, and equipment.

Depreciation is recording using the straight-line method over the various lives of the assets, which range from three to ten years.

Liabilities

All liabilities are recorded as incurred in the appropriate enterprise fund.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the HRA or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

6. Housing and Redevelopment Authority of Morrison County

A. Summary of Significant Accounting Policies

3. Assets, Liabilities, and Fund Equity Accounts (Continued)

Vacation and Sick Leave

Under the HRA's personnel policies, employees are granted vacation and sick leave in varying amounts based on status and length of service. Vacation amounts range from one day to two days per month. Unpaid vacation pay is generally paid at the time of separation from employment. Sick leave is earned at a rate of up to one and one-half days per month with a maximum accumulation of 100 days. Maximum accumulation for vacation is 24 days.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

B. Detailed Notes on All Funds

1. Deposits and Investments

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the HRA's deposits and investments may not be returned or the HRA will not be able to recover collateral securities in the possession of an outside party. The HRA does not include a disclosure concerning deposit policies for custodial credit risk in its financial statements. As of December 31, 2011, the bank and book balance of the HRA's deposits totaled \$90,928.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

6. Housing and Redevelopment Authority of Morrison County

B. Detailed Notes on All Funds (Continued)

2. Capital Assets

A summary of the HRA's capital assets at December 31, 2011, follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land and improvements	\$ 23,500	\$ -	\$ -	\$ 23,500
Capital assets depreciated				
Buildings	\$ 295,098	\$ -	\$ -	\$ 295,098
Equipment and other	9,972	640	-	10,612
Total capital assets depreciated	\$ 305,070	\$ 640	\$ -	\$ 305,710
Less: accumulated depreciation	51,108	12,827	-	63,935
Total capital assets depreciated, net	\$ 253,962	\$ (12,187)	\$ -	\$ 241,775
Business-Type Activities Capital Assets, Net	<u>\$ 277,462</u>	<u>\$ (12,187)</u>	<u>\$ -</u>	<u>\$ 265,275</u>

Depreciation expense was charged to the following funds:

Business-type activities	
Housing Choice Vouchers	\$ 706
State/Local	<u>12,121</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 12,827</u>

3. Liabilities

Liabilities at December 31, 2011, consisted of the following:

Accounts payable (less than 90 days)	\$ 3,738
Salaries payable	6,163
Accrued compensated absences - current portion	1,089
Accrued compensated absences - noncurrent	1,089
Accrued interest payable	509
Current portion of long-term debt	12,261
Long-term debt, net of current	<u>118,479</u>
Total Liabilities	<u>\$ 143,328</u>

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

6. Housing and Redevelopment Authority of Morrison County

B. Detailed Notes on All Funds

3. Liabilities (Continued)

Long-term debt includes a mortgage note payable to US Bank secured by the building owned by the HRA. The loan amount was \$195,000, with the first payment of \$1,506 due on December 1, 2005; the interest rate is 4.64 percent. The final payment is due November 1, 2020.

The HRA established a line of credit with Minnesota Federal Credit Union in the amount of \$35,000 with interest at 8.50 percent floating. Interest at December 31, 2011, was 4.25 percent. The line of credit was not used during 2011.

Long-term liability activity for the year ended December 31, 2011, was as follows:

	<u>Building Loan</u>	<u>Line of Credit</u>	<u>Total</u>
Balance - January 1, 2011	\$ 142,446	\$ -	\$ 142,446
Payments made	(11,706)	-	(11,706)
Balance - December 31, 2011	<u>\$ 130,740</u>	<u>\$ -</u>	<u>\$ 130,740</u>
Due Within One Year	<u>\$ 12,261</u>	<u>\$ -</u>	<u>\$ 12,261</u>

Debt service requirements at December 31, 2011, were as follows:

<u>Year Ending December 31</u>	<u>Building Loan</u>	<u>Line of Credit</u>	<u>Total</u>
2012	\$ 10,659	\$ -	\$ 10,659
2013	11,192	-	11,192
2014	11,725	-	11,725
2015	12,258	-	12,258
2016	12,791	-	12,791
Thereafter	<u>72,115</u>	<u>-</u>	<u>72,115</u>
Balance December 31, 2011	<u>\$ 130,740</u>	<u>\$ -</u>	<u>\$ 130,740</u>

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

6. Housing and Redevelopment Authority of Morrison County

B. Detailed Notes on All Funds

3. Liabilities (Continued)

Changes in compensated absences for the period ended December 31, 2011, are as follows:

Balance - January 1, 2011	\$	858
Net change in compensated absences		1,320
Balance - December 31, 2011	\$	2,178
Due Within One Year	\$	1,089

C. Pension Plan

Eligible employees participate in a defined benefit pension plan with the Principal Mutual Insurance Company. The plan provides for coverage as follows:

Total Wages	\$	45,476	
Covered Wages	\$	33,748	
Employer contribution	\$	3,375	10.0%
Employee contribution		1,856	5.5
Total	\$	5,231	15.5%

D. Summary of Significant Contingencies and Other Items

Risk Management

The HRA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; workers' compensation claims; and natural disasters. Property and casualty and workers' compensation liabilities are insured. The HRA retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the basic financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 8,311,260	\$ 8,311,260	\$ 8,028,704	\$ (282,556)
Licenses and permits	313,007	313,007	280,039	(32,968)
Intergovernmental	2,977,485	2,977,485	4,004,776	1,027,291
Charges for services	1,888,549	1,888,549	1,761,229	(127,320)
Fines and forfeits	3,000	3,000	15,620	12,620
Investment income	335,000	335,000	227,657	(107,343)
Miscellaneous	438,400	438,400	542,356	103,956
Total Revenues	\$ 14,266,701	\$ 14,266,701	\$ 14,860,381	\$ 593,680
Expenditures				
Current				
General government				
Commissioners	\$ 284,759	\$ 284,759	\$ 261,350	\$ 23,409
Courts	98,200	98,200	96,516	1,684
Law library	35,000	35,000	35,281	(281)
Administrator	371,802	371,802	359,166	12,636
Risk management administration	232,318	232,318	237,386	(5,068)
County auditor/treasurer	806,432	806,432	759,326	47,106
Motor vehicle/license bureau	291,645	291,645	286,148	5,497
County assessor	792,164	792,164	776,019	16,145
Information services	530,032	530,032	486,692	43,340
Attorney	729,734	729,734	715,422	14,312
Recorder	330,243	330,243	398,433	(68,190)
Surveyor	2,400	2,400	675	1,725
Planning and zoning	222,029	222,029	230,680	(8,651)
Buildings and plant	823,909	823,909	705,218	118,691
Veterans service officer	195,487	195,487	206,056	(10,569)
Appropriations - airport	20,500	20,500	21,459	(959)
Other general government	280,000	280,000	148,514	131,486
Total general government	\$ 6,046,654	\$ 6,046,654	\$ 5,724,341	\$ 322,313

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<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	\$ 2,747,536	\$ 2,747,536	\$ 2,650,422	\$ 97,114
Boat and water safety	21,622	21,622	22,741	(1,119)
Coroner	72,000	72,000	67,498	4,502
E-911 system	100,000	100,000	48,086	51,914
County jail	2,078,127	2,078,127	1,784,694	293,433
Civil defense	74,495	74,495	71,759	2,736
Community corrections	175,814	175,814	175,899	(85)
Other public safety	-	-	965,925	(965,925)
Total public safety	\$ 5,269,594	\$ 5,269,594	\$ 5,787,024	\$ (517,430)
Health				
Nursing service	\$ 2,041,553	\$ 2,041,553	\$ 2,111,602	\$ (70,049)
Culture and recreation				
Historical society	\$ 36,070	\$ 36,070	\$ 35,178	\$ 892
Other	18,930	18,930	173,375	(154,445)
Total culture and recreation	\$ 55,000	\$ 55,000	\$ 208,553	\$ (153,553)
Conservation of natural resources				
County extension	\$ 160,233	\$ 160,233	\$ 156,069	\$ 4,164
Soil and water conservation	64,800	64,800	94,588	(29,788)
Agricultural society	36,723	36,723	35,826	897
Water planning	20,928	20,928	20,988	(60)
Other	78,302	78,302	55,659	22,643
Total conservation of natural resources	\$ 360,986	\$ 360,986	\$ 363,130	\$ (2,144)
Economic development				
Community development	\$ 43,532	\$ 43,532	\$ 43,532	\$ -

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Intergovernmental				
Culture and recreation				
Library	\$ 473,841	\$ 473,841	\$ 473,841	\$ -
Economic development				
Community development	-	-	500,000	(500,000)
Total intergovernmental	<u>\$ 473,841</u>	<u>\$ 473,841</u>	<u>\$ 973,841</u>	<u>\$ (500,000)</u>
Debt service				
Bond issuance costs	-	-	37,387	(37,387)
Total Expenditures	<u>\$ 14,291,160</u>	<u>\$ 14,291,160</u>	<u>\$ 15,249,410</u>	<u>\$ (958,250)</u>
Excess of Revenues Over (Under)				
Expenditures	<u>\$ (24,459)</u>	<u>\$ (24,459)</u>	<u>\$ (389,029)</u>	<u>\$ (364,570)</u>
Other Financing Sources (Uses)				
Transfers out	-	-	(244,000)	(244,000)
Bonds issued	-	-	1,540,000	1,540,000
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,296,000</u>	<u>\$ 1,296,000</u>
Net Change in Fund Balance	<u>\$ (24,459)</u>	<u>\$ (24,459)</u>	<u>\$ 906,971</u>	<u>\$ 931,430</u>
Fund Balance - January 1, as restated (Note 2.A.)	<u>7,610,654</u>	<u>7,610,654</u>	<u>7,610,654</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 7,586,195</u></u>	<u><u>\$ 7,586,195</u></u>	<u><u>\$ 8,517,625</u></u>	<u><u>\$ 931,430</u></u>

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,654,218	\$ 2,654,218	\$ 2,554,863	\$ (99,355)
Intergovernmental	7,570,240	7,570,240	8,614,267	1,044,027
Charges for services	-	-	366,559	366,559
Miscellaneous	-	-	72,025	72,025
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 10,224,458	\$ 10,224,458	\$ 11,607,714	\$ 1,383,256
Expenditures				
Current				
Highways and streets				
Administration	\$ 386,069	\$ 386,069	\$ 353,861	\$ 32,208
Maintenance	2,096,396	2,096,396	2,183,801	(87,405)
Construction	6,507,848	6,507,848	6,360,528	147,320
Equipment maintenance and shop	1,221,984	1,221,984	1,131,089	90,895
Other	-	-	43,072	(43,072)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total highways and streets	\$ 10,212,297	\$ 10,212,297	\$ 10,072,351	\$ 139,946
Conservation of natural resources				
Agricultural inspector	12,161	12,161	10,304	1,857
Intergovernmental				
Highways and streets	-	-	438,695	(438,695)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	\$ 10,224,458	\$ 10,224,458	\$ 10,521,350	\$ (296,892)
Net Change in Fund Balance	\$ -	\$ -	\$ 1,086,364	\$ 1,086,364
Fund Balance - January 1	4,699,491	4,699,491	4,699,491	-
Increase (decrease) in inventories	-	-	115,182	115,182
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31	\$ 4,699,491	\$ 4,699,491	\$ 5,901,037	\$ 1,201,546

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,848,978	\$ 2,848,978	\$ 2,741,159	\$ (107,819)
Intergovernmental	4,807,322	4,807,322	5,006,337	199,015
Charges for services	298,750	298,750	328,371	29,621
Miscellaneous	312,750	312,750	335,461	22,711
Total Revenues	\$ 8,267,800	\$ 8,267,800	\$ 8,411,328	\$ 143,528
Expenditures				
Current				
Human services				
Income maintenance	\$ 2,846,400	\$ 2,846,400	\$ 2,810,121	\$ 36,279
Social services	5,487,400	5,487,400	5,796,445	(309,045)
Total Expenditures	\$ 8,333,800	\$ 8,333,800	\$ 8,606,566	\$ (272,766)
Net Change in Fund Balance	\$ (66,000)	\$ (66,000)	\$ (195,238)	\$ (129,238)
Fund Balance - January 1	3,163,848	3,163,848	3,163,848	-
Fund Balance - December 31	\$ 3,097,848	\$ 3,097,848	\$ 2,968,610	\$ (129,238)

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 170,551	\$ 170,551	\$ 163,690	\$ (6,861)
Special assessments	-	-	2,449	2,449
Licenses and permits	15,000	15,000	11,150	(3,850)
Intergovernmental	118,937	118,937	119,253	316
Charges for services	1,782,600	1,782,600	2,031,700	249,100
Investment income	-	-	88,101	88,101
Miscellaneous	43,500	43,500	54,653	11,153
Total Revenues	\$ 2,130,588	\$ 2,130,588	\$ 2,470,996	\$ 340,408
Expenditures				
Current				
Sanitation				
Solid waste	2,130,588	2,130,588	2,329,460	(198,872)
Net Change in Fund Balance	\$ -	\$ -	\$ 141,536	\$ 141,536
Fund Balance - January 1	5,702,225	5,702,225	5,702,225	-
Fund Balance - December 31	\$ 5,702,225	\$ 5,702,225	\$ 5,843,761	\$ 141,536

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	\$ -	\$ 1,353,368	\$ 1,353,368	0.00%	\$ 15,000,000	9.02%
January 1, 2010	-	1,391,253	1,391,253	0.00	14,565,000	9.55

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011

1. Budgetary Information

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

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

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

2. Excess of Expenditures Over Budget

The following major governmental funds had expenditures in excess of budget at the function level for the year ended December 31, 2011:

	Expenditures		
	Actual	Final Budget	Excess
General Fund			
Current			
Public safety	\$ 5,787,024	\$ 5,269,594	\$ 517,430
Health	2,111,602	2,041,553	70,049
Culture and recreation	208,553	55,000	153,553
Conservation of natural resources	363,130	360,986	2,144
Intergovernmental			
Economic development	500,000	-	500,000
Debt service	37,387	-	37,387

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

2. Excess of Expenditures Over Budget (Continued)

	<u>Actual</u>	<u>Expenditures Final Budget</u>	<u>Excess</u>
Road and Bridge Special Revenue Fund			
Intergovernmental			
Highways and streets	438,695	-	438,695
Social Services Special Revenue Fund			
Current			
Human services	8,606,566	8,333,800	272,766
Solid Waste Special Revenue Fund			
Current			
Sanitation	2,329,460	2,130,588	198,872

SUPPLEMENTARY INFORMATION

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

NONMAJOR FUNDS

SPECIAL REVENUE FUNDS

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

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

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

Regional Rail Authority - to account for the operation, maintenance, and development of the County's trail system.

AGENCY FUNDS

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

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

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

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

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

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

NONMAJOR FUNDS

AGENCY FUNDS
(Continued)

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

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

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

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

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

EXHIBIT B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	Special Revenue Funds			Total
	County Building	County Parks	Regional Rail Authority	
<u>Assets</u>				
Cash and pooled investments	\$ 181,588	\$ 136,544	\$ 60,570	\$ 378,702
Delinquent taxes receivable	3,762	1,030	3,254	8,046
Total Assets	<u>\$ 185,350</u>	<u>\$ 137,574</u>	<u>\$ 63,824</u>	<u>\$ 386,748</u>
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ -	\$ 25	\$ -	\$ 25
Due to other funds	-	-	1,196	1,196
Deferred revenue - unavailable	3,762	1,030	3,254	8,046
Total Liabilities	<u>\$ 3,762</u>	<u>\$ 1,055</u>	<u>\$ 4,450</u>	<u>\$ 9,267</u>
Fund Balances				
Restricted for				
Economic development	\$ -	\$ -	\$ 59,374	\$ 59,374
Committed to				
Park projects	-	136,519	-	136,519
County building projects	181,588	-	-	181,588
Total Fund Balances	<u>\$ 181,588</u>	<u>\$ 136,519</u>	<u>\$ 59,374</u>	<u>\$ 377,481</u>
Total Liabilities and Fund Balances	<u>\$ 185,350</u>	<u>\$ 137,574</u>	<u>\$ 63,824</u>	<u>\$ 386,748</u>

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

EXHIBIT B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Special Revenue Funds			Total
	County Building	County Parks	Regional Rail Authority	
Revenues				
Taxes	\$ 84,847	\$ 34,782	\$ 73,097	\$ 192,726
Intergovernmental	30,408	4,164	9,199	43,771
Investment income	-	-	92	92
Miscellaneous	1,082	129	1,887	3,098
Total Revenues	\$ 116,337	\$ 39,075	\$ 84,275	\$ 239,687
Expenditures				
Current				
General government	\$ 332,947	\$ -	\$ -	\$ 332,947
Culture and recreation	-	19,042	-	19,042
Economic development	-	-	19,857	19,857
Total Expenditures	\$ 332,947	\$ 19,042	\$ 19,857	\$ 371,846
Excess of Revenues Over (Under)				
Expenditures	\$ (216,610)	\$ 20,033	\$ 64,418	\$ (132,159)
Other Financing Sources (Uses)				
Transfers in	\$ 244,000	\$ -	\$ -	\$ 244,000
Transfers out	-	-	(57,585)	(57,585)
Total Other Financing Sources (Uses)	\$ 244,000	\$ -	\$ (57,585)	\$ 186,415
Net Change in Fund Balance	\$ 27,390	\$ 20,033	\$ 6,833	\$ 54,256
Fund Balance - January 1	154,198	116,486	52,541	323,225
Fund Balance - December 31	\$ 181,588	\$ 136,519	\$ 59,374	\$ 377,481

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
COUNTY BUILDING SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 88,369	\$ 88,369	\$ 84,847	\$ (3,522)
Intergovernmental	16,711	16,711	30,408	13,697
Miscellaneous	-	-	1,082	1,082
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 105,080	\$ 105,080	\$ 116,337	\$ 11,257
Expenditures				
Current				
General government	105,080	105,080	332,947	(227,867)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (216,610)	\$ (216,610)
Other Financing Sources (Uses)				
Transfers in	-	-	244,000	244,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Change in Fund Balance	\$ -	\$ -	\$ 27,390	\$ 27,390
Fund Balance - January 1	154,198	154,198	154,198	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31	\$ 154,198	\$ 154,198	\$ 181,588	\$ 27,390
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

EXHIBIT B-4

**BUDGETARY COMPARISON SCHEDULE
COUNTY PARKS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 22,107	\$ 22,107	\$ 34,782	\$ 12,675
Intergovernmental	4,164	4,164	4,164	-
Miscellaneous	-	-	129	129
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 26,271	\$ 26,271	\$ 39,075	\$ 12,804
Expenditures				
Current				
Culture and recreation				
Parks	36,271	36,271	19,042	17,229
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Change in Fund Balance	\$ (10,000)	\$ (10,000)	\$ 20,033	\$ 30,033
Fund Balance - January 1	<u>116,486</u>	<u>116,486</u>	<u>116,486</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 106,486</u></u>	<u><u>\$ 106,486</u></u>	<u><u>\$ 136,519</u></u>	<u><u>\$ 30,033</u></u>

FIDUCIARY FUNDS

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>LOCAL COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 803,630	\$ 192,037	\$ 283,503	\$ 712,164
Departmental cash	27	13	27	13
Accrued interest receivable	10,976	6,861	10,976	6,861
Total Assets	\$ 814,633	\$ 198,911	\$ 294,506	\$ 719,038
<u>Liabilities</u>				
Due to other governments	\$ 814,633	\$ 198,911	\$ 294,506	\$ 719,038
 <u>MOTOR VEHICLE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 11,606	\$ 259,211	\$ 263,889	\$ 6,928
<u>Liabilities</u>				
Due to other governments	\$ 11,606	\$ 259,211	\$ 263,889	\$ 6,928
 <u>SPECIAL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 213,270	\$ 213,270	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 213,270	\$ 213,270	\$ -

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 7,911,642	\$ 7,911,642	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 7,911,642	\$ 7,911,642	\$ -
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 72,977	\$ 557,468	\$ 580,035	\$ 50,410
<u>Liabilities</u>				
Due to other governments	\$ 72,977	\$ 557,468	\$ 580,035	\$ 50,410
 <u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 8,308,983	\$ 8,308,983	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 8,308,983	\$ 8,308,983	\$ -

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MORRISON, TODD, AND WADENA BOARD OF HEALTH</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 103,604	\$ 1,045,114	\$ 1,076,597	\$ 72,121
<u>Liabilities</u>				
Due to other governments	\$ 103,604	\$ 1,045,114	\$ 1,076,597	\$ 72,121
 <u>FORFEITED LAND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 70,587	\$ 35,600	\$ 34,987
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 70,587	\$ 35,600	\$ 34,987
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 379,017	\$ 36,789,488	\$ 36,869,141	\$ 299,364
<u>Liabilities</u>				
Due to other governments	\$ 379,017	\$ 36,789,488	\$ 36,869,141	\$ 299,364

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,370,834	\$ 55,347,800	\$ 55,542,660	\$ 1,175,974
Departmental cash	27	13	27	13
Accrued interest receivable	10,976	6,861	10,976	6,861
Total Assets	\$ 1,381,837	\$ 55,354,674	\$ 55,553,663	\$ 1,182,848
<u>Liabilities</u>				
Due to other governments	\$ 1,381,837	\$ 55,354,674	\$ 55,553,663	\$ 1,182,848

OTHER SCHEDULES

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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2011**

Shared Revenue

State

Highway users tax	\$	6,054,644
County program aid		1,330,082
Market value credit - real property		1,422,783
Market value credit - mobile home		3,187
PERA rate reimbursement		48,267
Disparity reduction aid		29,135
Police aid		120,293
Enhanced 911		106,634
		106,634

Total shared revenue **\$ 9,115,025**

Reimbursement for Services

Minnesota Department of Human Services	\$	889,159
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Payments - Local

Local grants	\$	23,697
Local share of construction		192,428
Payments in lieu of taxes		193,603
		193,603

Total payments **\$ 409,728**

Grants

State

Minnesota Department/Board of		
Corrections	\$	17,589
Public Safety		11,826
Transportation		1,156
Health		189,145
Natural Resources		162,401
Human Services		1,455,220
Water and Soil Resources		113,118
Pollution Control Agency		87,020
Peace Officer Standards and Training Board		8,711
		8,711

Total state **\$ 2,046,186**

Federal

Department of		
Agriculture	\$	419,028
Commerce		30,507
Housing and Urban Development		500,000
Transportation		1,897,262
Health and Human Services		2,449,906
Homeland Security		177,949
		177,949

Total federal **\$ 5,474,652**

Total state and federal grants **\$ 7,520,838**

Total Intergovernmental Revenue **\$ 17,934,750**

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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	\$ 188,981
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	230,047
Total U.S. Department of Agriculture		\$ 419,028
U.S. Department of Commerce		
Passed Through Central Minnesota Regional Radio Board Public Safety Interoperable Communications Grant Program	11.555	\$ 30,507
U.S. Department of Housing and Urban Development		
Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	\$ 500,000
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction	20.205	\$ 1,796,932
Passed Through Minnesota Department of Natural Resources Highway Planning and Construction Cluster Recreational Trails Program	20.219	5,863
Passed Through Minnesota Department of Public Safety Highway Safety Cluster State and Community Highway Safety	20.600	12,251
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	7,523
Occupant Protection Incentive Grants	20.602	1,059
Safety Belt Performance Grants	20.609	1,472
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	4,993
Total U.S. Department of Transportation		\$ 1,830,093

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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		
Promoting Safe and Stable Families	93.556	\$ 22,495
Temporary Assistance for Needy Families (TANF) Cluster		
Temporary Assistance for Needy Families	93.558	281,229
Emergency Contingency Fund for TANF State Program - ARRA	93.714	7,447
Child Support Enforcement	93.563	603,143
Child Care and Development Cluster		
Child Care and Development Block Grant	93.575	1,329
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	10,428
Foster Care - Title IV-E	93.658	184,573
Social Services Block Grant	93.667	215,309
Chafee Foster Care Independence Program	93.674	7,922
Children's Health Insurance Program	93.767	130
Medical Assistance Program	93.778	807,337
Block Grants for Community Mental Health Services	93.958	8,552
Block Grants for the Prevention and Treatment of Substance Abuse	93.959	147,263
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	38,792
Immunization Cluster		
Immunization Grants	93.268	1,950
Immunization - ARRA	93.712	4,565
PPHF 2012 National Public Health Improvement Initiative	93.507	1,500
Temporary Assistance for Needy Families Cluster		
Temporary Assistance for Needy Families	93.558	42,396
Maternal and Child Health Services Block Grant to the States	93.994	41,386
Passed Through Becker County, Minnesota		
Promoting Safe and Stable Families	93.556	22,160
Total U.S. Department of Health and Human Services		\$ 2,449,906

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

*EXHIBIT D-2
(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 4,500
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	22,609
Passed Through Central Minnesota Regional Radio Board Homeland Security Grant Program	97.067	100,964
Passed Through West Central Minnesota Emergency Management System Homeland Security Grant Program	97.067	<u>49,876</u>
Total U.S. Department of Homeland Security		\$ <u>177,949</u>
Total Federal Awards		\$ <u><u>5,407,483</u></u>

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. Reporting Entity

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

Morrison County's financial statements include the operations of the Housing and Redevelopment Authority (HRA) of Morrison County and the Morrison County Rural Development Finance Authority (RDFA) component units. The HRA and RDFA expended \$538,331 and \$500,000, respectively, in federal awards during the year ended December 31, 2011; these expenditures are not included in Morrison County's Schedule of Expenditures of Federal Awards because the HRA and RDFA have their own single audits.

2. Basis of Presentation

The accompanying schedule of Expenditures of Federal Awards includes the federal grant activity of Morrison County under programs of the federal government for the year ended December 31, 2011. 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 Morrison County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Morrison 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.

**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Highway Planning and Construction Cluster	\$ 1,802,795
Highway Safety Cluster	22,305
Temporary Assistance for Needy Families Cluster	331,072
Child Care and Development Cluster	11,757

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 5,474,652
Highway planning and construction grant received more than 60 days after year-end	3,425
Highway planning and construction grant deferred in 2010 and recognized in 2011	<u>(70,594)</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 5,407,483</u>

6. Subrecipients

Of the expenditures presented in the schedule, Morrison County provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	\$ 500,000

7. 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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**MORRISON COUNTY
LITTLE FALLS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major programs are:

Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	CFDA #14.228
Highway Planning and Construction Cluster	
Highway Planning and Construction	CFDA #20.205
Recreational Trails Program	CFDA #20.219
Temporary Assistance for Needy Families Cluster	
Temporary Assistance for Needy Families	CFDA #93.558
Emergency Contingency Fund for TANF State Program - ARRA	CFDA #93.714
Homeland Security Grant Program	CFDA #97.067

The threshold for distinguishing between Types A and B programs was \$300,000.

Morrison County qualified as low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-2 Segregation of Duties

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: Several of the County's departments that collect fees lack proper segregation of duties. Offices that do not have sufficient segregation of duties include Planning and Zoning, Sheriff, Public Health, and Social Services. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Context: Due to the limited number of office personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Morrison County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

Recommendation: We recommend that the County's elected officials and management be aware of the lack of segregation of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff to the extent possible.

Client's Response:

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

PREVIOUSLY REPORTED ITEMS RESOLVED

Jail - Inmate Checking Account Reconciliation (09-1)

During our review of the Jail's inmate checking account reconciliations we noted numerous internal control weaknesses related to the reconciliation process.

Resolution

The Jail has established internal controls and procedures that mitigate the control weaknesses previously noted.

Capital Assets (09-2)

In prior audits, we noted several capital assets were not recorded at the correct value. Also, two capital assets disposed of during the year did not have depreciation calculated to the assets' disposal date, and five capital assets disposed of during the year were listed on the capital asset system at book value at year-end.

Resolution

No errors related to the recording of additions or depreciation in the capital asset system were identified during the 2011 audit.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

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

Board of County Commissioners
Morrison County

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Morrison County as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 12, 2012. Our report includes a reference to other auditors. 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. Other auditors audited the financial statements of the Housing and Redevelopment Authority of Morrison County, as described in our report on Morrison County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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 a deficiency in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 96-2, that we consider to be a significant deficiency 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 Morrison County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for 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 since the cities administer tax increment financing in Morrison County.

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

Morrison County's written response to the internal control finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. We did not audit the County's response and, accordingly, we express no opinion on it.

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

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 12, 2012

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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 County Commissioners
Morrison County

Compliance

We have audited Morrison 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, 2011. Morrison County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

Morrison County's basic financial statements include the operations of the Housing and Redevelopment Authority (HRA) of Morrison County and the Morrison County Rural Development Finance Authority (RDFA) component units, which expended \$538,331 and \$500,000, respectively, in federal awards during the year ended December 31, 2011, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the HRA of Morrison County or the Morrison County RDFA because the HRA of Morrison County was audited by other auditors, and the Morrison County RDFA had a separate single audit in accordance with OMB Circular A-133.

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

In our opinion, Morrison County complied, in all material respects, with the compliance 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, 2011.

Internal Control Over Compliance

Management of Morrison County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program 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

September 12, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR