

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

AITKIN COUNTY
AITKIN, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2008

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**AITKIN COUNTY
AITKIN, MINNESOTA**

For the Year Ended December 31, 2008



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

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**AITKIN COUNTY
AITKIN, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	12
Statement of Activities	Exhibit 2	14
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	16
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	Exhibit 4	18
Statement of Revenues, Expenditures, and Changes in Fund Balance	Exhibit 5	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	Exhibit 6	21
Proprietary Fund		
Long Lake Conservation Center Enterprise Fund		
Statement of Net Assets	Exhibit 7	22
Statement of Revenues, Expenses, and Changes in Fund Net Assets	Exhibit 8	23
Statement of Cash Flows	Exhibit 9	24
Fiduciary Funds		
Statement of Fiduciary Net Assets	Exhibit 10	25
Notes to the Financial Statements		26

**AITKIN COUNTY
AITKIN, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Financial Section (Continued)		
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	58
Road and Bridge Special Revenue Fund	Schedule 2	61
Health and Human Services Special Revenue Fund	Schedule 3	62
Forfeited Tax Sale Special Revenue Fund	Schedule 4	63
Notes to the Required Supplementary Information		64
Supplementary Information		
Governmental Funds		
Nonmajor Governmental Funds		
Combining Balance Sheet	Statement 1	65
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	Statement 2	68
Budgetary Comparison Schedules		
Forest Development Special Revenue Fund	Schedule 5	70
Unorganized Road, Bridge, and Fire Special Revenue Fund	Schedule 6	71
Ditch Special Revenue Fund	Schedule 7	72
Jail Bond Debt Service Fund	Schedule 8	73
Fiduciary Funds		
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	Statement 3	74
Component Unit		
Aitkin Municipal Airport Commission		
Statement of Net Assets and Governmental Fund Balance Sheet	Statement 4	76
Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance	Statement 5	77
Other Schedules		
Schedule of Intergovernmental Revenue	Schedule 9	78
Balance Sheet - By Ditch - Ditch Special Revenue Fund	Schedule 10	80

**AITKIN COUNTY
AITKIN, MINNESOTA**

**TABLE OF CONTENTS
(Continued)**

	<u>Reference</u>	<u>Page</u>
Management and Compliance Section		
Schedule of Findings and Questioned Costs	Schedule 11	82
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		94
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		97
Schedule of Expenditures of Federal Awards	Schedule 12	100

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**AITKIN COUNTY
AITKIN, MINNESOTA**

**ORGANIZATION
AS OF DECEMBER 31, 2008**

		<u>Term Expires</u>
Elected		
Commissioners		
District 1	Mark Wedel	January 2011
District 2	Dale Lueck	January 2009
District 3	Paul Bailey	January 2011
District 4	Brian Napstad	January 2009
District 5	Galen Tveit	January 2011
Attorney	Jim Ratz	January 2011
Auditor	Kirk Peysar	January 2011
Recorder	Diane Lafferty	January 2011
Sheriff	Scott Turner	January 2011
Treasurer	Lori Grams	January 2011
Appointed		
Administrator	Patrick Wussow	Indefinite
Assessor	Mike Dangers	December 2012
Engineer	John Welle	December 2012
Coroner	Dr. M. B. McGee	Indefinite
Health and Human Services Director	Tom Burke	Indefinite
Land Commissioner	Mark Jacobs	Indefinite
Veterans Service Officer	Penny Harms	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Aitkin County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Aitkin County, Minnesota, as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Aitkin County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Aitkin County as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Aitkin County's basic financial statements. The supplementary information and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly 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 December 16, 2009, on our consideration of Aitkin County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 16, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**AITKIN COUNTY
AITKIN, MINNESOTA**

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

Aitkin County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2008. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities have total net assets of \$91,733,413, of which \$61,552,730 is invested in capital assets, net of related debt, and \$6,429,419 is restricted to specific purposes.
- Business-type activities have total net assets of \$3,843,025. Invested in capital assets, net of related debt, represents \$4,032,329 of the total. Of the total business-type net assets, \$5,000 is restricted for specific uses.
- Aitkin County's net assets increased by \$3,122,647 for the year ended December 31, 2008. Of the increase, \$3,230,898 was in governmental activities net assets, and business-type activities decreased net assets by \$108,251. The net assets of the County's discretely presented component unit increased by \$183,461.
- The cost of primary government activities increased by \$936,331 to \$24,771,179 for the current fiscal year. Program revenues of \$12,621,386 offset those costs. A portion of the net cost was funded by general revenues and other items totaling \$15,272,440.
- Governmental funds' fund balances decreased by \$578,034.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

Fund Financial Statements

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

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

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

Reporting the County's Fiduciary Responsibilities

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

THE COUNTY AS A WHOLE

Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental and business-type activities for the year ended December 31, 2008, with comparative amounts for 2007.

Table 1
Net Assets
(in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 33,893	\$ 35,612	\$ (121)	\$ (144)	\$ 33,772	\$ 35,468
Capital assets	63,852	59,956	4,032	4,146	67,884	64,102
Total Assets	\$ 97,745	\$ 95,568	\$ 3,911	\$ 4,002	\$ 101,656	\$ 99,570
Long-term debt outstanding	\$ 3,806	\$ 4,164	\$ 17	\$ 14	\$ 3,823	\$ 4,178
Other liabilities	2,206	2,902	51	37	2,257	2,939
Total Liabilities	\$ 6,012	\$ 7,066	\$ 68	\$ 51	\$ 6,080	\$ 7,117
Net Assets						
Invested in capital assets, net of debt	\$ 61,553	\$ 57,261	\$ 4,032	\$ 4,146	\$ 65,585	\$ 61,407
Restricted	6,429	9,196	5	5	6,434	9,201
Unrestricted	23,751	22,045	(194)	(200)	23,557	21,845
Total Net Assets	\$ 91,733	\$ 88,502	\$ 3,843	\$ 3,951	\$ 95,576	\$ 92,453

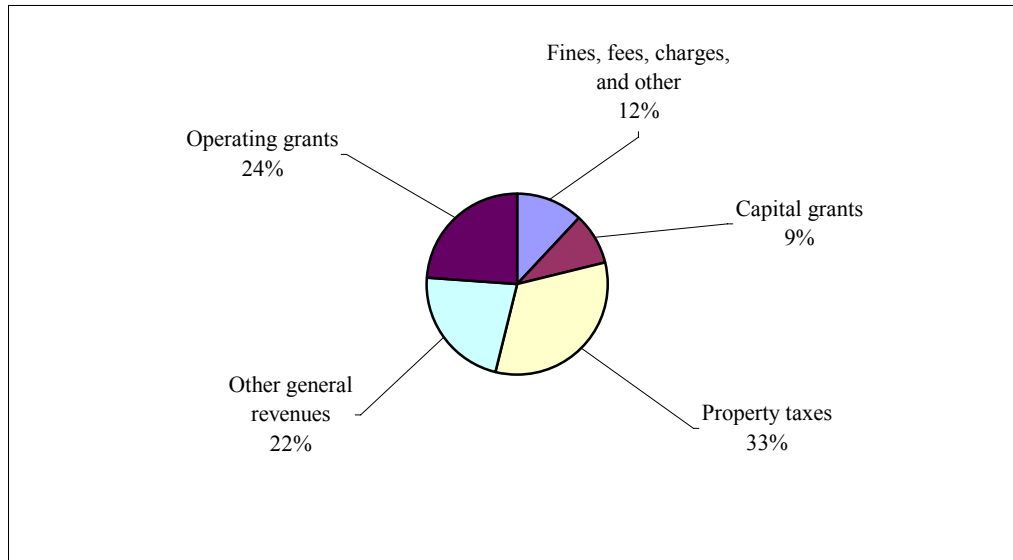
Table 2
Changes in Net Assets
(in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues						
Fines, fees, charges, and other	\$ 2,708	\$ 3,003	\$ 775	\$ 707	\$ 3,483	\$ 3,710
Operating grants	6,734	5,971	16	-	6,750	5,971
Capital grants	2,336	3,513	52	6	2,388	3,519
General revenues						
Property taxes	9,257	8,908	-	-	9,257	8,908
Other taxes	1,308	1,341	-	307	1,308	1,648
Grants and contributions	1,801	2,247	2	2	1,803	2,249
Other general revenues	2,905	2,971	-	-	2,905	2,971
Total Revenues	\$ 27,049	\$ 27,954	\$ 845	\$ 1,022	\$ 27,894	\$ 28,976
Expenses						
General government	\$ 4,891	\$ 4,923	\$ -	\$ -	\$ 4,891	\$ 4,923
Public safety	4,968	4,539	-	-	4,968	4,539
Highways and streets	5,487	4,784	-	-	5,487	4,784
Sanitation	317	335	-	-	317	335
Human services	5,139	4,987	-	-	5,139	4,987
Health	634	589	-	-	634	589
Culture and recreation	376	790	-	-	376	790
Conservation of natural resources	1,782	1,737	953	910	2,735	2,647
Economic development	109	105	-	-	109	105
Interest	115	136	-	-	115	136
Total Expenses	\$ 23,818	\$ 22,925	\$ 953	\$ 910	\$ 24,771	\$ 23,835

(Unaudited)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Excess of Revenues Over (Under) Expenses	\$ 3,231	\$ 5,029	\$ (108)	\$ 112	\$ 3,123	\$ 5,141
Transfers	-	(554)	-	554	-	-
Increase (Decrease) in Net Assets	\$ 3,231	\$ 4,475	\$ (108)	\$ 666	\$ 3,123	\$ 5,141
Net Assets, January 1	88,502	84,027	3,951	3,285	92,453	87,312
Net Assets, December 31	\$ 91,733	\$ 88,502	\$ 3,843	\$ 3,951	\$ 95,576	\$ 92,453

Total County Revenues by Source



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

The cost of all activities this year was \$23,818. However, as shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through County taxes was \$9,257 because some of the cost was paid by those who directly benefited from the programs (\$2,708) or by other governments and organizations that subsidized certain programs with grants and contributions (\$9,070).

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

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

Activity	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Human services	\$ 5,139	\$ 4,987	\$ 2,278	\$ 1,874
General government	4,891	4,923	3,669	3,613
Highways and streets	5,487	4,784	(228)	(1,226)
Public safety	4,968	4,539	4,228	3,349
Conservation of natural resources	1,782	1,737	1,448	1,277
Totals	<u>\$ 22,267</u>	<u>\$ 20,970</u>	<u>\$ 11,395</u>	<u>\$ 8,887</u>

Business-Type Activities

Revenues of the County’s business-type activities decreased by 17.5 percent, primarily due to the receipt of a grant in 2007. Income from fees increased 9.6 percent, and expenses increased by 4.7 percent.

The County’s Funds (in thousands)

As the County completed the year, its governmental funds reported a combined fund balance of \$27,160, which is below last year’s total of \$27,737. The Health and Human Services Special Revenue Fund’s change in fund balance (an increase of \$560 for 2008) represented the largest increase in governmental fund balances. Most of the Health and Human Services Special Revenue Fund’s increase is due to lower than expected costs. The General Fund and the Road and Bridge Special Revenue Fund saw reductions in fund balance of \$862 and \$406, respectively.

General Fund Budgetary Highlights (in thousands)

The actual charges to appropriations (expenditures) were \$51 over the final budget amounts. Significant positive variances include the following: intergovernmental revenue exceeded budgeted amounts, and general government expenditures were less than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets (in thousands)

At the end of 2008, the County had \$67,885 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of \$3,783, or 5.9 percent, over the last year.

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

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Land	\$ 2,288	\$ 2,238	\$ 15	\$ 15	\$ 2,303	\$ 2,253
Construction in progress	563	491	2	4	565	495
Buildings and improvements	9,403	9,675	3,994	4,104	13,397	13,779
Machinery and equipment	2,496	2,358	21	23	2,517	2,381
Infrastructure	49,103	45,194	-	-	49,103	45,194
Totals	\$ 63,853	\$ 59,956	\$ 4,032	\$ 4,146	\$ 67,885	\$ 64,102

This year's major additions include:

County Road 4	Aggregate Base and Shoulder; Bituminous Milling and Reclamation	\$ 2,738
CSAH 32	Grading/Aggregate Base and Bridge Replacement	1,334
County Road 29	Grading/Aggregate Base/Shoulder; Bituminous Surface	518

The County's fiscal year 2009 capital budget calls for it to spend another \$5,008 for capital projects, principally for highways and streets improvements. Additional information on capital assets is found in Note 3.A.3. to the financial statements.

Debt (in thousands)

At year-end, the County had \$2,816 in bonds and notes outstanding, versus \$3,236 last year, a decrease of 13.0 percent, as shown in Table 5.

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

	Governmental Activities	
	2008	2007
General obligation bonds and notes (backed by the County)	\$ 2,075	\$ 2,370
General obligation revenue notes	50	50
Certificates of participation	225	325
Clear Water Partnership Project notes	47	72
Minnesota Department of Agriculture notes	129	129
Minnesota Department of Natural Resources loan	290	290
Totals	\$ 2,816	\$ 3,236

(Unaudited)

Page 10

The County's general obligation bond rating is "A1," a rating assigned by national rating agencies to the County's debt. The state limits the amount of net debt the County can issue to three percent of the market value of all taxable property in the County. The County's outstanding net debt is significantly below this \$55,107 state-imposed limit.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2009 budget, tax rates, and fees that will be charged for the business-type activities.

- The State of Minnesota had projected a significant budget deficit; the County experienced reductions through unallotment of County Program Aid in 2008. It is expected that there will be significant reductions in state aids to local governments in 2009 and 2010.
- An increase in the unemployment rate in 2009 could impact the level of services requested by County residents.
- The population of Aitkin County is increasing dramatically. This increase is creating increased demands for services across several service areas.
- The potential for deflation in real estate market values could result in tax rate increases.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 1

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

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and pooled investments	\$ 26,677,414	\$ -	\$ 26,677,414	\$ -
Petty cash and change funds	5,500	-	5,500	-
Cash with fiscal agent	134,922	-	134,922	-
Cash with escrow agent	201,653	-	201,653	-
Taxes receivable				
Prior - net	431,673	-	431,673	-
Special assessments receivable				
Prior - net	1,825	-	1,825	-
Noncurrent - net	19,813	-	19,813	-
Accounts receivable - net	2,507,072	15,052	2,522,124	-
Accrued interest receivable	176,509	-	176,509	-
Loan receivable	186,013	-	186,013	-
Internal balances	141,151	(141,151)	-	-
Due from other governments	3,110,623	-	3,110,623	-
Inventories	248,701	3,522	252,223	-
Prepaid items	3,276	-	3,276	-
Deposits receivable	25,000	-	25,000	-
Restricted assets				
Cash and pooled investments	-	2,000	2,000	-
Deferred charges	21,745	-	21,745	-
Capital assets				
Non-depreciable	2,851,151	17,400	2,868,551	106,426
Depreciable - net of accumulated depreciation	61,001,579	4,014,929	65,016,508	1,046,525
Total Assets	\$ 97,745,620	\$ 3,911,752	\$ 101,657,372	\$ 1,152,951
Liabilities				
Accounts payable	\$ 389,492	\$ 18,235	\$ 407,727	\$ -
Salaries payable	833,503	32,793	866,296	-
Contracts payable	666,942	-	666,942	-
Due to other governments	238,561	-	238,561	-
Accrued interest payable	5,531	-	5,531	-
Unearned revenue	72,055	-	72,055	-
Long-term liabilities				
Due within one year	449,505	-	449,505	-
Due in more than one year	3,356,618	17,699	3,374,317	-
Total Liabilities	\$ 6,012,207	\$ 68,727	\$ 6,080,934	\$ -

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

Page 12

**AITKIN COUNTY
AITKIN, MINNESOTA**

***EXHIBIT 1
(Continued)***

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

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Net Assets</u>				
Invested in capital assets - net of related debt	\$ 61,552,730	\$ 4,032,329	\$ 65,585,059	\$ 1,152,951
Restricted for				
General government	486,152	-	486,152	-
Public safety	479,470	-	479,470	-
Culture and recreation	217,488	-	217,488	-
Conservation of natural resources	2,224,907	-	2,224,907	-
Highways and streets	704,822	-	704,822	-
Sanitation	643,447	-	643,447	-
Capital projects	-	3,000	3,000	-
Debt service	536,829	-	536,829	-
Other purposes	1,136,304	2,000	1,138,304	-
Unrestricted	23,751,264	(194,304)	23,556,960	-
Total Net Assets	\$ 91,733,413	\$ 3,843,025	\$ 95,576,438	\$ 1,152,951

**AITKIN COUNTY
AITKIN, MINNESOTA**

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

	Expenses	Fees, Charges, Fines, and Other	Program Revenues Operating Grants and Contributions
<u>Functions/Programs</u>			
Primary government			
Governmental activities			
General government	\$ 4,890,734	\$ 1,052,040	\$ 169,900
Public safety	4,968,321	450,390	289,783
Highways and streets	5,486,464	469,555	2,908,732
Sanitation	317,473	6,816	-
Human services	5,139,264	573,320	2,287,627
Health	633,965	107,717	663,150
Culture and recreation	375,953	10,328	80,785
Conservation of natural resources	1,781,917	-	334,017
Economic development	108,508	38,185	-
Interest	115,385	-	-
	\$ 23,817,984	\$ 2,708,351	\$ 6,733,994
Business-type activities			
Long Lake Conservation Center	953,195	775,049	16,454
	\$ 24,771,179	\$ 3,483,400	\$ 6,750,448
Component unit			
Aitkin Municipal Airport Commission	\$ 129,811	\$ 6,844	\$ 15,422

General Revenues

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

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>			<u>Discretely Presented Component Unit</u>
	<u>Primary Government</u>		<u>Total</u>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>		
\$ -	\$ (3,668,794)	\$ -	\$ (3,668,794)	
-	(4,228,148)	-	(4,228,148)	
2,336,038	227,861	-	227,861	
-	(310,657)	-	(310,657)	
-	(2,278,317)	-	(2,278,317)	
-	136,902	-	136,902	
-	(284,840)	-	(284,840)	
-	(1,447,900)	-	(1,447,900)	
-	(70,323)	-	(70,323)	
-	(115,385)	-	(115,385)	
\$ 2,336,038	\$ (12,039,601)	\$ -	\$ (12,039,601)	
51,500	-	(110,192)	(110,192)	
\$ 2,387,538	\$ (12,039,601)	\$ (110,192)	\$ (12,149,793)	
\$ 290,989				\$ 183,444
	\$ 9,256,839	\$ -	\$ 9,256,839	\$ -
	17,598	-	17,598	-
	34,208	-	34,208	-
	1,255,963	-	1,255,963	-
	1,801,043	1,888	1,802,931	-
	1,087,107	53	1,087,160	17
	1,817,741	-	1,817,741	-
	\$ 15,270,499	\$ 1,941	\$ 15,272,440	\$ 17
	\$ 3,230,898	\$ (108,251)	\$ 3,122,647	\$ 183,461
	88,502,515	3,951,276	92,453,791	969,490
	\$ 91,733,413	\$ 3,843,025	\$ 95,576,438	\$ 1,152,951

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 3

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>	<u>Forfeited Tax Sale</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Assets</u>						
Cash and pooled investments	\$ 15,837,835	\$ 829,549	\$ 4,437,095	\$ 2,723,654	\$ 2,849,281	\$ 26,677,414
Petty cash and change funds	2,500	-	3,000	-	-	5,500
Cash with fiscal agent	134,922	-	-	-	-	134,922
Cash with escrow agent	201,653	-	-	-	-	201,653
Taxes receivable						
Prior	227,432	79,639	104,418	-	20,184	431,673
Special assessments						
Prior	-	-	-	-	1,825	1,825
Noncurrent	-	-	-	-	19,813	19,813
Accounts receivable	79,697	53	16,098	2,411,224	-	2,507,072
Accrued interest receivable	176,509	-	-	-	-	176,509
Loans receivable	186,013	-	-	-	-	186,013
Due from other funds	391,052	48,796	-	-	316,228	756,076
Due from other governments	57,142	2,438,065	337,399	1,791	276,226	3,110,623
Prepaid expense	-	-	3,276	-	-	3,276
Inventories	-	248,701	-	-	-	248,701
Deposits receivable	25,000	-	-	-	-	25,000
Total Assets	\$ 17,319,755	\$ 3,644,803	\$ 4,901,286	\$ 5,136,669	\$ 3,483,557	\$ 34,486,070
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 176,877	\$ 52,988	\$ 139,742	\$ 16,652	\$ 3,233	\$ 389,492
Salaries payable	467,918	110,338	207,658	30,539	17,050	833,503
Contracts payable	-	666,942	-	-	-	666,942
Due to other funds	-	-	8,051	558,078	48,796	614,925
Due to other governments	-	-	77,156	161,405	-	238,561
Deferred revenue - unavailable	182,093	1,797,791	82,265	2,411,224	37,719	4,511,092
Timber permit bonds	-	-	-	72,055	-	72,055
Total Liabilities	\$ 826,888	\$ 2,628,059	\$ 514,872	\$ 3,249,953	\$ 106,798	\$ 7,326,570

**AITKIN COUNTY
AITKIN, MINNESOTA**

**EXHIBIT 3
(Continued)**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>	<u>Forfeited Tax Sale</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Liabilities and Fund Balances</u>						
(Continued)						
Fund Balances						
Reserved for						
Environmental uses	\$ -	\$ -	\$ -	\$ -	\$ 483,765	\$ 483,765
Missing heirs	-	-	-	20,336	-	20,336
Inventories	-	248,701	-	-	-	248,701
Capital membership	25,000	-	-	-	-	25,000
County development	19,108	-	-	1,114,153	-	1,133,261
Law library	-	-	-	43,303	-	43,303
Sheriff's contingency	5,000	-	-	-	-	5,000
Debt service	336,574	-	-	-	-	336,574
Loans receivable	159,280	-	-	-	-	159,280
Recorder's equipment purchases	245,100	-	-	-	-	245,100
Recorder's technology	192,749	-	-	-	-	192,749
Attorney grant carryover	5,000	-	-	-	-	5,000
Enhanced 911	359,743	-	-	-	-	359,743
Conservation of natural resources	14,944	-	-	-	-	14,944
Gun permit carryover	32,297	-	-	-	-	32,297
Prisoner welfare	63,322	-	-	-	-	63,322
STS carryover	1,818	-	-	-	-	1,818
Unclaimed property	-	-	-	1,815	-	1,815
Forfeited tax sale	-	-	-	14,775	-	14,775
Parks	96,563	-	-	-	-	96,563
Unreserved						
Designated for						
Future expenditures	656,572	-	-	-	-	656,572
Cash flows	8,728,645	-	-	-	-	8,728,645
Solid waste	643,447	-	-	-	-	643,447
Economic development	607,638	-	-	-	-	607,638
Workers' compensation	-	-	-	692,334	-	692,334
Undesignated	4,300,067	768,043	4,386,414	-	-	9,454,524
Unreserved, reported in nonmajor						
Special revenue funds	-	-	-	-	2,717,169	2,717,169
Debt service fund	-	-	-	-	175,825	175,825
Total Fund Balances	\$ 16,492,867	\$ 1,016,744	\$ 4,386,414	\$ 1,886,716	\$ 3,376,759	\$ 27,159,500
Total Liabilities and Fund Balances	\$ 17,319,755	\$ 3,644,803	\$ 4,901,286	\$ 5,136,669	\$ 3,483,557	\$ 34,486,070

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)		\$ 27,159,500
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		63,852,730
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		
Deferred revenue		4,511,092
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
General obligation bonds - including issuance premium	\$ (2,200,138)	
Notes	(97,375)	
Loans payable	(418,797)	
Compensated absences (not reported in the funds)	(864,813)	
Accrued interest payable	(5,531)	
Certificates of participation	(225,000)	
Deferred debt issuance charges	21,745	
	(3,789,909)	
Net Assets of Governmental Activities (Exhibit 1)		\$ 91,733,413

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 5

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>	<u>Forfeited Tax Sale</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues						
Taxes	\$ 4,779,180	\$ 1,751,837	\$ 2,269,216	\$ -	\$ 448,369	\$ 9,248,602
Special assessments	-	-	-	-	1,514	1,514
Licenses and permits	129,513	-	-	-	11,963	141,476
Intergovernmental	2,463,156	6,482,110	3,396,496	355,585	285,937	12,983,284
Charges for services	1,147,955	434,392	43,276	27,980	-	1,653,603
Fines and forfeits	28,575	-	-	-	-	28,575
Gifts and contributions	1,200	-	-	-	-	1,200
Interest on investments	1,071,886	-	-	-	15,221	1,087,107
Miscellaneous	276,020	35,143	573,320	1,481,794	21,189	2,387,466
Total Revenues	\$ 9,897,485	\$ 8,703,482	\$ 6,282,308	\$ 1,865,359	\$ 784,193	\$ 27,532,827
Expenditures						
Current						
General government	\$ 4,805,382	\$ -	\$ -	\$ 62,744	\$ 1,893	\$ 4,870,019
Public safety	4,796,644	-	-	-	17,540	4,814,184
Highways and streets	-	9,199,129	-	-	-	9,199,129
Sanitation	300,608	-	-	-	-	300,608
Human services	-	-	5,098,921	-	-	5,098,921
Health	2,987	-	623,050	-	-	626,037
Culture and recreation	760,092	-	-	-	-	760,092
Conservation of natural resources	312,307	-	-	934,266	574,344	1,820,917
Economic development	107,884	-	-	-	-	107,884
Debt service						
Principal	124,439	-	-	-	295,000	419,439
Interest	16,534	-	-	-	118,500	135,034
Total Expenditures	\$ 11,226,877	\$ 9,199,129	\$ 5,721,971	\$ 997,010	\$ 1,007,277	\$ 28,152,264
Excess of Revenues Over (Under) Expenditures	\$ (1,329,392)	\$ (495,647)	\$ 560,337	\$ 868,349	\$ (223,084)	\$ (619,437)

**AITKIN COUNTY
AITKIN, MINNESOTA**

***EXHIBIT 5
(Continued)***

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>	<u>Forfeited Tax Sale</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Other Financing Sources (Uses)						
Transfers in	\$ 467,699	\$ 89,981	\$ -	\$ -	\$ 316,710	\$ 874,390
Transfers out	-	-	-	(758,671)	(115,719)	(874,390)
Total Other Financing Sources (Uses)	<u>\$ 467,699</u>	<u>\$ 89,981</u>	<u>\$ -</u>	<u>\$ (758,671)</u>	<u>\$ 200,991</u>	<u>\$ -</u>
Change in Fund Balance	\$ (861,693)	\$ (405,666)	\$ 560,337	\$ 109,678	\$ (22,093)	\$ (619,437)
Fund Balance - January 1	17,354,560	1,381,007	3,826,077	1,777,038	3,398,852	27,737,534
Increase (decrease) in reserved for inventories	<u>-</u>	<u>41,403</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,403</u>
Fund Balance - December 31	<u><u>\$ 16,492,867</u></u>	<u><u>\$ 1,016,744</u></u>	<u><u>\$ 4,386,414</u></u>	<u><u>\$ 1,886,716</u></u>	<u><u>\$ 3,376,759</u></u>	<u><u>\$ 27,159,500</u></u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) **\$ (619,437)**

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

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

December 31		
Deferred revenue - unavailable	\$ 4,511,092	
January 1		
Deferred revenue - unavailable	(5,686,257)	
Less: forfeited tax sales due to other governments	737,077	(438,088)

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

Expenditures for general capital assets and infrastructure	\$ 6,065,528	
Net book value of assets sold	(45,857)	
Current year depreciation	(2,123,278)	3,896,393

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

Principal repayments		
General obligation bonds	\$ 295,000	
Certificates of participation	100,000	
General obligation notes	24,439	419,439

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

Change in accrued interest payable	\$ 2,417	
Change in compensated absences	(88,461)	
Amortization of deferred debt issuance costs	(3,624)	
Amortization of bond premiums	20,856	
Change in inventories	41,403	(27,409)

Change in Net Assets of Governmental Activities (Exhibit 2) **\$ 3,230,898**

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

PROPRIETARY FUND

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**LONG LAKE CONSERVATION CENTER
ENTERPRISE FUND**

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**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND
DECEMBER 31, 2008**

Assets

Current assets

Accounts receivable - net	\$ 15,052
Inventories	3,522

Total current assets **\$ 18,574**

Restricted assets

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

Noncurrent assets

Capital assets	
Nondepreciable	\$ 17,400
Depreciable - net	4,014,929

Total noncurrent assets **\$ 4,032,329**

Total Assets **\$ 4,052,903**

Liabilities

Current liabilities

Accounts payable	\$ 18,235
Salaries payable	32,793
Due to other funds	141,151

Total current liabilities **\$ 192,179**

Noncurrent liabilities

Compensated absences payable - long-term	17,699
--	--------

Total Liabilities **\$ 209,878**

Net Assets

Invested in capital assets - net of related debt	\$ 4,032,329
Restricted for	
Capital projects	3,000
Other purposes	2,000
Unrestricted	(194,304)

Total Net Assets **\$ 3,843,025**

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

Operating Revenues	
Program packages	\$ 704,249
Resale	58,545
Miscellaneous	12,255
	<hr/>
Total Operating Revenues	\$ 775,049
Operating Expenses	
Personal services	\$ 540,772
Other services and charges	28,793
Supplies	96,954
Utilities	72,947
Advertising	7,044
Insurance	18,476
Staff training	434
Postage	2,797
Depreciation	151,238
Resale	31,740
	<hr/>
Total Operating Expenses	\$ 951,195
Operating Income (Loss)	\$ (176,146)
Nonoperating Revenues (Expenses)	
Intergovernmental	\$ 1,888
Interest income	53
Gifts and contributions	67,954
Loss on sale/disposal of capital assets	(2,000)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 67,895
Change in Net Assets	\$ (108,251)
Net Assets - January 1	3,951,276
	<hr/>
Net Assets - December 31	\$ 3,843,025
	<hr/> <hr/>

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 769,236
Payments to suppliers	(245,723)
Payments to employees	<u>(535,394)</u>
Net cash provided by (used in) operating activities	<u>\$ (11,881)</u>
Cash Flows from Noncapital Financing Activities	
Intergovernmental	\$ 1,888
Contributions	16,454
Interfund	<u>(18,321)</u>
Net cash provided by (used in) noncapital financing activities	<u>\$ 21</u>
Cash Flows from Capital and Related Financing Activities	
Capital contributions	\$ 51,500
Purchases of capital assets	(37,693)
Gain (loss) on disposal of capital assets	<u>(2,000)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ 11,807</u>
Cash Flows from Investing Activities	
Interest	<u>\$ 53</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ -
Cash and Cash Equivalents at January 1	<u>2,000</u>
Cash and Cash Equivalents at December 31	<u><u>2,000</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	<u>\$ (176,146)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 151,238
(Increase) decrease in accounts receivable	(5,834)
(Increase) decrease in accrued interest receivable	21
(Increase) decrease in inventories	1,281
Increase (decrease) in accounts payable	12,181
Increase (decrease) in salaries payable	1,868
Increase (decrease) in compensated absences payable	<u>3,510</u>
Total adjustments	<u>\$ 164,265</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (11,881)</u></u>

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

Page 24

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FIDUCIARY FUNDS

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**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 10

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

Assets

Cash and pooled investments	<u>\$ 797,495</u>
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Liabilities

Accounts payable	\$ 131,612
Due to other governments	<u>665,883</u>

Total Liabilities	<u>\$ 797,495</u>
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**AITKIN COUNTY
AITKIN, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2008. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Aitkin County was established May 23, 1857, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Aitkin County (primary government) and its component unit for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Discretely Presented Component Unit

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government and its component unit. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

The County reports the following major enterprise fund:

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2008, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds receive investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2008 were \$1,071,886.

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

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

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

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

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

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

4. Inventories and Prepaid Items

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

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

AITKIN COUNTY
AITKIN, MINNESOTA

1. Summary of Significant Accounting Policies

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

5. Restricted Assets

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

6. Capital Assets

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

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

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

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Compensated Absences

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

8. Deferred Revenue

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

9. Long-Term Obligations

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Fund Equity

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

11. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Ditch Special Revenue Fund had a deficit fund balance of \$21,187 as of December 31, 2008. This deficit will be eliminated by future special assessment levies against benefited properties.

B. Expenditures in Excess of Budget

For the year ended December 31, 2008, expenditures exceeded appropriations in the General Fund by \$51,413; the Road and Bridge Special Revenue Fund by \$1,360,312; and in the Unorganized Road, Bridge, and Fire Special Revenue Fund by \$793. Overexpenditures were funded by greater than anticipated revenues in the Unorganized Road, Bridge, and Fire Special Revenue Fund and by the use of fund balances in the General Fund and Road and Bridge Special Revenue Fund.

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 26,677,414
Petty cash and change funds	5,500
Cash with escrow agent	201,653
Cash with fiscal agent	134,922
Business-type activities	
Cash and pooled investments - restricted assets	2,000
Statement of fiduciary net assets	
Cash and pooled investments	<u>797,495</u>
 Total Cash and Investments	 <u>\$ 27,818,984</u>

a. Deposits

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. It is the County's policy that collateral or bonds will be required for all uninsured amounts on deposit, and the additional insurance will be documented to show compliance with state law and a perfected security interest under federal law. As of December 31, 2008, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's policy is that brokers may hold County

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

investments only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available, with the exception of investments held within the MAGIC Fund. As of December 31, 2008, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

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

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

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Government National Mortgage Association Pool	N/A	N/A		05/15/2021	\$ 5,130
Government National Mortgage Association Pool	N/A	N/A		12/15/2022	2,450
Total Government National Mortgage Association Pools					\$ 7,580
Federal Home Loan Mortgage Corporation Bond	N/R	N/A		04/01/2017	\$ 461
Federal Home Loan Mortgage Corporation Bond	AAA	S&P		10/23/2012	500,980
Federal Home Loan Mortgage Corporation Bond	AAA	S&P		10/30/2013	501,612
Federal Home Loan Mortgage Corporation Bond	AAA	S&P		12/15/2013	1,520,942
Federal Home Loan Mortgage Corporation Bond	AAA	S&P		05/28/2014	2,511,250
Federal Home Loan Mortgage Corporation Bond	AAA	S&P		06/05/2014	2,000,578
Federal Home Loan Mortgage Corporation Bond	AAA	S&P		11/28/2014	2,004,660
Total Federal Home Loan Mortgage Corporation Bonds			42.7%		\$ 9,040,483

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Federal National Mortgage Association Note	AAA	S&P		01/03/2013	\$ 3,501,505
Investment pools/mutual funds					
Wells Fargo - Advantage Prime Fund	AAA	S&P	N/A	N/A	\$ 1,034,747
MAGIC Fund	N/R	N/A	N/A	N/A	5,421,150
First American Treasury Obligations Fund	AAA	S&P	N/A	N/A	201,653
Total investment pools/mutual funds					\$ 6,657,550
Negotiable certificates of deposit					
Capital One Nat'l Assn.	N/A	N/A	N/A	03/19/2009	\$ 96,441
CapMark Bank	N/A	N/A	N/A	03/19/2009	96,420
GMAC Bank	N/A	N/A	N/A	03/20/2009	96,444
National Bank	N/A	N/A	N/A	04/24/2009	96,000
InfiBank	N/A	N/A	N/A	05/14/2009	96,522
Hinsdale Bank & Trust	N/A	N/A	N/A	05/07/2010	96,858
America West Bank	N/A	N/A	N/A	05/28/2010	99,836
First Mariner Bank	N/A	N/A	N/A	07/15/2010	97,692
Discover Bank	N/A	N/A	N/A	07/16/2010	96,685
Marshall & Ilsley Bank	N/A	N/A	N/A	07/16/2010	96,686
Southwest Bank	N/A	N/A	N/A	07/16/2010	96,686
Wachovia Bank	N/A	N/A	N/A	07/19/2010	96,685
Bank United FSB	N/A	N/A	N/A	08/16/2010	99,937
Atlantic Coast Bank	N/A	N/A	N/A	08/16/2010	99,937
GE Capital FINL, Inc.	N/A	N/A	N/A	09/20/2010	95,885
GE Money Bank	N/A	N/A	N/A	09/20/2010	97,118
American Express Bank	N/A	N/A	N/A	11/12/2010	96,683
Goldman Sachs Bank	N/A	N/A	N/A	11/12/2010	96,803
American Express Bank	N/A	N/A	N/A	11/26/2010	96,680
Sovereign Bank FSB	N/A	N/A	N/A	11/26/2010	96,679
Total negotiable certificates of deposit					\$ 1,942,677
Total investments					\$ 21,149,795
Deposits					6,663,689
Petty cash					5,500
Total Cash and Investments					\$ 27,818,984

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables, net of uncollectible amounts, as of December 31, 2008, for the County's governmental activities and business-type activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 431,673	\$ -
Special assessments	21,638	20,124
Due from other governments	3,110,623	-
Accounts	2,507,072	-
Interest	176,509	-
Loans	186,013	154,873
Deposits	25,000	25,000
	\$ 6,458,528	\$ 199,997
Business-Type Activities		
Accounts	\$ 15,052	\$ -

An allowance for uncollectible receivables related to timber sales is included in the above figures. The allowance at December 31, 2008, is \$655,288.

3. Capital Assets

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

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 2,238,377	\$ 49,216	\$ -	\$ 2,287,593
Construction in progress	490,544	73,014	-	563,558
	\$ 2,728,921	\$ 122,230	\$ -	\$ 2,851,151
Capital assets depreciated				
Buildings	\$ 14,525,141	\$ 95,966	\$ -	\$ 14,621,107
Machinery, furniture, and equipment	8,120,007	703,848	379,080	8,444,775
Infrastructure	57,723,202	5,143,484	-	62,866,686
	\$ 80,368,350	\$ 5,943,298	\$ 379,080	\$ 85,932,568

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 4,849,934	\$ 368,048	\$ -	\$ 5,217,982
Machinery, furniture, and equipment	5,762,462	519,859	333,223	5,949,098
Infrastructure	12,528,538	1,235,371	-	13,763,909
Total accumulated depreciation	\$ 23,140,934	\$ 2,123,278	\$ 333,223	\$ 24,930,989
Total capital assets depreciated, net	\$ 57,227,416	\$ 3,820,020	\$ 45,857	\$ 61,001,579
Governmental Activities Capital Assets, Net	\$ 59,956,337	\$ 3,942,250	\$ 45,857	\$ 63,852,730

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 15,400	\$ -	\$ -	\$ 15,400
Construction in progress	4,000	-	2,000	2,000
Total capital assets not depreciated	\$ 19,400	\$ -	\$ 2,000	\$ 17,400
Capital assets depreciated				
Buildings	\$ 5,673,680	\$ 34,088	\$ -	\$ 5,707,768
Machinery, furniture, and equipment	148,728	3,605	2,945	149,388
Total capital assets depreciated	\$ 5,822,408	\$ 37,693	\$ 2,945	\$ 5,857,156
Less: accumulated depreciation for				
Buildings	\$ 1,569,652	\$ 143,863	\$ -	\$ 1,713,515
Machinery, furniture, and equipment	126,282	5,375	2,945	128,712
Total accumulated depreciation	\$ 1,695,934	\$ 149,238	\$ 2,945	\$ 1,842,227
Total capital assets depreciated, net	\$ 4,126,474	\$ (111,545)	\$ -	\$ 4,014,929
Business-Type Activities Capital Assets, Net	\$ 4,145,874	\$ (111,545)	\$ 2,000	\$ 4,032,329

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	221,872
Public safety		253,537
Highways and streets, including depreciation of infrastructure assets		1,539,435
Health and human services		28,545
Sanitation		16,397
Culture and recreation		3,643
Conservation of natural resources		59,849
Total Depreciation Expense - Governmental Activities	\$	2,123,278
Business-Type Activities		
Long Lake Conservation Center	\$	149,238

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Forfeited Tax Sale	\$ 241,850	Forfeited tax sale apportionment
	Long Lake Conservation Center	141,151	Fund deficit cash balance
	Health and Human Services	8,051	Services provided
Total due to General Fund		\$ 391,052	
Road and Bridge Fund	Nonmajor governmental funds	48,796	Services provided
Nonmajor governmental funds	Forfeited Tax Sale	316,228	Forfeited tax sale apportionment
Total Due To/From Other Funds		\$ 756,076	

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2008, consisted of the following:

Transfers to General Fund from Forfeited Tax Sale Fund	\$ 441,961	Forfeited tax sale apportionment and transfer of funds to cover expenditures
Nonmajor governmental funds	<u>25,738</u>	Reimburse for expenditure
Total transferred to General Fund	\$ 467,699	
Transfers to Road and Bridge Fund from nonmajor governmental funds	89,981	Provide funds for services
Transfer to nonmajor governmental funds from Forfeited Tax Sale Fund	<u>316,710</u>	Forfeited tax sale apportionment and transfer of funds to cover expenditures
Total Interfund Transfers	<u>\$ 874,390</u>	

C. Liabilities

1. Long-Term Debt

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2008
2005 General Obligation Jail Refunding Bonds	2014	\$260,000 - \$335,000	5.00	\$ 2,920,000	\$ 2,075,000
1999B General Obligation Revenue Notes	2014	\$50,000	0.00	50,000	50,123
2000A Certificates of Participation	2010	\$20,000 - \$115,000	5.00 - 5.90	<u>845,000</u>	<u>225,000</u>
Total General Obligation Bonds				<u>\$ 3,815,000</u>	<u>\$ 2,350,123</u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

1. Long-Term Debt

Governmental Activities (Continued)

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2008</u>
1999 Clean Water Partnership Project Notes	2010	\$21,186	0.00	\$ 211,864	\$ 31,781
2000 Clean Water Partnership Project Notes	2013	\$1,806	2.00	<u>32,450</u>	<u>15,471</u>
Total Clean Water Partnership Notes				<u>\$ 244,314</u>	<u>\$ 47,252</u>
1999 Minnesota Department of Agriculture Loans	2019	\$73,930	0.00	\$ 73,930	\$ 73,930
2001 Minnesota Department of Agriculture Loans	2018	\$54,867	0.00	<u>54,867</u>	<u>54,867</u>
Total Minnesota Department of Agriculture Loans				<u>\$ 128,797</u>	<u>\$ 128,797</u>
2006 Minnesota Department of Natural Resources Land Exchange Loan	2011	\$290,000	0.00	<u>\$ 290,000</u>	<u>\$ 290,000</u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Debt Service Requirements

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

Governmental Activities

Year Ending December 31	General Obligation Bonds		General Obligation Revenue Notes		Certificates of Participation	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 315,000	\$ 103,750	\$ -	\$ -	\$ 110,000	\$ 10,030
2010	330,000	88,000	-	-	115,000	3,393
2011	350,000	71,500	-	-	-	-
2012	365,000	54,000	-	-	-	-
2013	380,000	35,750	-	-	-	-
2014 - 2018	335,000	16,750	50,123	-	-	-
2019 - 2023	-	-	-	-	-	-
Totals	<u>\$ 2,075,000</u>	<u>\$ 369,750</u>	<u>\$ 50,123</u>	<u>\$ -</u>	<u>\$ 225,000</u>	<u>\$ 13,423</u>

Year Ending December 31	Clean Water Partnership Project Notes of 1999		Clean Water Partnership Project Notes of 2000		Minnesota Department of Agriculture Loans of 1999	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 21,186	\$ -	\$ 3,319	\$ 293	\$ -	\$ -
2010	10,595	-	3,386	226	-	-
2011	-	-	3,454	158	-	-
2012	-	-	3,523	89	-	-
2013	-	-	1,789	18	-	-
2014 - 2018	-	-	-	-	-	-
2019 - 2023	-	-	-	-	73,930	-
Totals	<u>\$ 31,781</u>	<u>\$ -</u>	<u>\$ 15,471</u>	<u>\$ 784</u>	<u>\$ 73,930</u>	<u>\$ -</u>

Year Ending December 31	Minnesota Department of Agriculture Loans of 2001		Minnesota Department of Natural Resources Land Exchange Loan of 2006		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ -	\$ -	\$ -	\$ -	\$ 449,505	\$ 114,073
2010	-	-	-	-	458,981	91,619
2011	-	-	290,000	-	643,454	71,658
2012	-	-	-	-	368,523	54,089
2013	-	-	-	-	381,789	35,768
2014 - 2018	-	-	-	-	385,123	16,750
2019 - 2023	54,867	-	-	-	128,797	-
Totals	<u>\$ 54,867</u>	<u>\$ -</u>	<u>\$ 290,000</u>	<u>\$ -</u>	<u>\$ 2,816,172</u>	<u>\$ 383,957</u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Changes in Long-Term Liabilities

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

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
General obligation bonds	\$ 2,370,000	\$ -	\$ 295,000	\$ 2,075,000	\$ 315,000
Bond premium	145,994	-	20,857	125,137	-
G.O. revenue notes	50,123	-	-	50,123	-
Certificates of participation	325,000	-	100,000	225,000	110,000
Total bonds payable	\$ 2,891,117	\$ -	\$ 415,857	\$ 2,475,260	\$ 425,000
Clear Water Partnership Project Notes of 1999	52,967	-	21,186	31,781	21,186
Clear Water Partnership Project Notes of 2000	18,724	-	3,253	15,471	3,319
Minnesota Department of Agriculture Loans of 1999	73,930	-	-	73,930	-
Minnesota Department of Agriculture Loans of 2001	54,867	-	-	54,867	-
Minnesota Department of Natural Resources Land Exchange Loan of 2006	290,000	-	-	290,000	-
Compensated absences	781,818	1,024,633	941,638	864,813	-
Governmental Activities Long-Term Liabilities	<u>\$ 4,163,423</u>	<u>\$ 1,024,633</u>	<u>\$ 1,381,934</u>	<u>\$ 3,806,122</u>	<u>\$ 449,505</u>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 14,189	\$ 32,749	\$ 29,239	\$ 17,699	\$ -

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint 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.

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

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

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

B. 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. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members were required to contribute 8.6 percent of their annual covered salary in 2008. That rate increased to 9.4 percent in 2009. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

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

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

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

	2008	2007	2006
Public Employees Retirement Fund	\$ 505,637	\$ 467,526	\$ 426,632
Public Employees Police and Fire Fund	136,125	119,174	99,325
Public Employees Correctional Fund	91,464	87,883	84,485

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

5. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$410,000 per

**AITKIN COUNTY
AITKIN, MINNESOTA**

5. Risk Management (Continued)

claim in 2008 and \$430,000 per claim in 2009. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. Joint Ventures

Northeast Minnesota Office of Job Training

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

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

A summary of the financial information of the Northeast Minnesota Office of Job Training's government-wide statements for June 30, 2008, was:

Total Assets	\$ 2,697,187
Total Liabilities	1,317,583
Total Net Assets	1,379,604
Total Revenues	5,034,686
Total Expenses	5,160,410
Change in Net Assets	(125,724)

Separate financial information can be obtained from:

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

Northern Counties Land Use Board

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northern Counties Land Use Board (Continued)

A summary of the government-wide financial statements at December 31, 2006 (most recent available), is shown below:

Total Assets	\$	75,537
Total Liabilities		20,061
Total Net Assets		55,476
Total Revenues		23,750
Total Expenses		7,780
Change in Net Assets		15,970

Aitkin County provided no funding to this organization during 2008.

Separate financial information can be obtained from:

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

Joint County Natural Resources Board

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

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

In the event of dissolution of the Joint County Natural Resources Board, the net assets of the Natural Resources Board at that time shall be distributed to the respective member counties in proportion to the contribution of each. Aitkin County provided no funding to this organization during 2008.

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Joint County Natural Resources Board (Continued)

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

Complete financial information can be obtained from:

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

Aitkin-Itasca-Koochiching Community Health Services Board

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

The Community Health Services Board is composed of two members from Aitkin and Koochiching Counties and three members from Itasca County, each appointed by the participating counties. Itasca County maintains the accounting records of the Community Health Services. Funding is obtained through federal, state, local, and private sources. Aitkin County provided no funding to this organization during 2008.

Complete financial information can be obtained from:

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Mississippi Headwaters Board

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

The Mississippi Headwaters Board consists of eight members, one appointed from each participating county. Cass County maintains the accounting records of the Board. Funding is obtained through federal, state, local, and private sources. Aitkin County provided \$1,500 to this organization during 2008.

Complete financial information can be obtained from:

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

Snake River Watershed Management Board

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

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Snake River Watershed Management Board (Continued)

Aitkin County provided \$10,079 to this organization during 2008. Upon dissolution, the personal property shall be returned to the member county contributing the same.

Complete financial information can be obtained from:

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

Minnesota Counties Information System (MCIS)

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

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

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

Separate financial information can be obtained from:

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

AITKIN COUNTY
AITKIN, MINNESOTA

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

C. Jointly-Governed Organization

Aitkin County Family Services Collaborative

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

D. Minnesota Community Capital Fund

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

E. Tax-Forfeited Land

The County manages approximately 221,491 acres of state-owned, tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs, such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

**AITKIN COUNTY
AITKIN, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

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

Reporting Entity

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

Cash and Pooled Investments

All cash of the Commission is on deposit with the City of Aitkin at December 31, 2008.

B. Detailed Notes

Capital Assets

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 106,426	\$ -	\$ -	\$ 106,426
Capital assets depreciated				
Buildings	\$ 195,303	\$ -	\$ -	\$ 195,303
Runways and improvements	1,490,820	306,411	-	1,797,231
Machinery, furniture, and equipment	248,625	-	-	248,625
Total capital assets depreciated	\$ 1,934,748	\$ 306,411	\$ -	\$ 2,241,159
Less: accumulated depreciation for				
Buildings	\$ 88,887	\$ 909	\$ -	\$ 89,796
Runways and improvements	865,581	80,572	-	946,153
Machinery, furniture, and equipment	141,189	17,496	-	158,685
Total accumulated depreciation	\$ 1,095,657	\$ 98,977	\$ -	\$ 1,194,634
Total capital assets depreciated, net	\$ 839,091	\$ 207,434	\$ -	\$ 1,046,525
Total Capital Assets, Net	\$ 945,517	\$ 207,434	\$ -	\$ 1,152,951

Depreciation of \$98,977 was charged for 2008.

REQUIRED SUPPLEMENTARY INFORMATION

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**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 5,855,856	\$ 5,855,856	\$ 4,779,180	\$ (1,076,676)
Licenses and permits	116,085	116,085	129,513	13,428
Intergovernmental	1,247,515	1,247,515	2,463,156	1,215,641
Charges for services	1,687,149	1,687,149	1,147,955	(539,194)
Fines and forfeits	45,250	45,250	28,575	(16,675)
Gifts and contributions	600	600	1,200	600
Investment earnings	1,200,000	1,200,000	1,071,886	(128,114)
Miscellaneous	251,641	251,641	276,020	24,379
Total Revenues	\$ 10,404,096	\$ 10,404,096	\$ 9,897,485	\$ (506,611)
Expenditures				
Current				
General government				
Commissioners	\$ 206,889	\$ 206,889	\$ 208,959	\$ (2,070)
Courts	57,000	57,000	64,801	(7,801)
County administration	313,523	313,523	323,468	(9,945)
County auditor	542,613	542,613	567,328	(24,715)
County treasurer	215,673	215,673	206,608	9,065
County assessor	719,985	719,985	716,301	3,684
Elections	125,987	125,987	81,073	44,914
Data processing	370,978	370,978	417,884	(46,906)
Central services	309,115	309,115	202,590	106,525
Attorney	801,403	801,403	748,265	53,138
Recorder	225,140	225,140	286,616	(61,476)
Planning and zoning	397,257	397,257	351,487	45,770
Buildings and plant	80,000	80,000	145,286	(65,286)
Maintenance	337,273	337,273	397,510	(60,237)
Veterans service officer	71,006	71,006	64,863	6,143
Motor pool	41,443	41,443	20,908	20,535
Housing and development	1,500	1,500	1,435	65
Total general government	\$ 4,816,785	\$ 4,816,785	\$ 4,805,382	\$ 11,403

**AITKIN COUNTY
AITKIN, MINNESOTA**

**Schedule 1
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,847,917	\$ 1,847,917	\$ 1,779,236	\$ 68,681
Boat and water safety	80,424	80,424	66,758	13,666
Snowmobile	29,641	29,641	22,139	7,502
Coroner	39,500	39,500	45,448	(5,948)
E-911 system	42,190	42,190	30,273	11,917
Community corrections	2,605,998	2,605,998	2,726,362	(120,364)
Crime victim	44,487	44,487	45,048	(561)
Civil defense	16,650	16,650	38,358	(21,708)
Juvenile diversion	47,237	47,237	352	46,885
Other public safety	51,709	51,709	42,670	9,039
Total public safety	\$ 4,805,753	\$ 4,805,753	\$ 4,796,644	\$ 9,109
Sanitation				
Solid waste	\$ 262,782	\$ 262,782	\$ 232,224	\$ 30,558
Environmental health	65,719	65,719	68,384	(2,665)
Total sanitation	\$ 328,501	\$ 328,501	\$ 300,608	\$ 27,893
Health				
Water wells	\$ 5,400	\$ 5,400	\$ 2,987	\$ 2,413
Culture and recreation				
Historical society	\$ 16,925	\$ 16,925	\$ 17,009	\$ (84)
Parks	581,239	581,239	505,399	75,840
Regional library	217,269	217,269	217,879	(610)
Tourism	21,300	21,300	19,805	1,495
Total culture and recreation	\$ 836,733	\$ 836,733	\$ 760,092	\$ 76,641
Conservation of natural resources				
Cooperative extension	\$ 155,788	\$ 155,788	\$ 183,317	\$ (27,529)
Soil and water conservation	109,324	109,324	109,324	-
Agricultural inspections	4,800	4,800	4,103	697
Agricultural society/County fair	15,100	15,100	15,563	(463)
Total conservation of natural resources	\$ 285,012	\$ 285,012	\$ 312,307	\$ (27,295)

**AITKIN COUNTY
AITKIN, MINNESOTA**

**Schedule 1
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Community development	\$ 915	\$ 915	\$ 266	\$ 649
Airports	21,007	21,007	21,007	-
Other	75,358	75,358	86,611	(11,253)
Total economic development	\$ 97,280	\$ 97,280	\$ 107,884	\$ (10,604)
Debt service				
Principal	\$ -	\$ -	\$ 124,439	\$ (124,439)
Interest	-	-	16,534	(16,534)
Total Expenditures	\$ 11,175,464	\$ 11,175,464	\$ 11,226,877	\$ (51,413)
Excess of Revenues Over (Under)				
Expenditures	\$ (771,368)	\$ (771,368)	\$ (1,329,392)	\$ (558,024)
Other Financing Sources (Uses)				
Transfers in	433,371	433,371	467,699	34,328
Change in Fund Balance	\$ (337,997)	\$ (337,997)	\$ (861,693)	\$ (523,696)
Fund Balance - January 1	17,354,560	17,354,560	17,354,560	-
Fund Balance - December 31	\$ 17,016,563	\$ 17,016,563	\$ 16,492,867	\$ (523,696)

**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 2

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,130,267	\$ 2,130,267	\$ 1,751,837	\$ (378,430)
Intergovernmental	5,772,350	5,772,350	6,482,110	709,760
Charges for services	337,600	337,600	434,392	96,792
Miscellaneous	-	-	35,143	35,143
Total Revenues	\$ 8,240,217	\$ 8,240,217	\$ 8,703,482	\$ 463,265
Expenditures				
Current				
Highways and streets				
Administration	\$ 408,766	\$ 408,766	\$ 434,920	\$ (26,154)
Engineering	419,100	419,100	487,409	(68,309)
Maintenance	2,702,401	2,702,401	2,779,951	(77,550)
Construction	4,308,550	4,308,550	5,496,849	(1,188,299)
Total Expenditures	\$ 7,838,817	\$ 7,838,817	\$ 9,199,129	\$ (1,360,312)
Excess of Revenues Over (Under) Expenditures	\$ 401,400	\$ 401,400	\$ (495,647)	\$ (897,047)
Other Financing Sources (Uses)				
Transfers in	-	-	89,981	89,981
Change in Fund Balance	\$ 401,400	\$ 401,400	\$ (405,666)	\$ (807,066)
Fund Balance - January 1	1,381,007	1,381,007	1,381,007	-
Increase (decrease) in reserved for inventories	-	-	41,403	41,403
Fund Balance - December 31	\$ 1,782,407	\$ 1,782,407	\$ 1,016,744	\$ (765,663)

**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,755,787	\$ 2,755,787	\$ 2,269,216	\$ (486,571)
Intergovernmental	2,880,308	2,880,308	3,396,496	516,188
Charges for services	24,850	24,850	43,276	18,426
Miscellaneous	462,421	462,421	573,320	110,899
Total Revenues	\$ 6,123,366	\$ 6,123,366	\$ 6,282,308	\$ 158,942
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,379,885	\$ 1,379,885	\$ 1,401,184	\$ (21,299)
Social services	4,108,755	4,108,755	3,697,737	411,018
Total human services	\$ 5,488,640	\$ 5,488,640	\$ 5,098,921	\$ 389,719
Health				
WIC	\$ 2,890	\$ 2,890	\$ 5,279	\$ (2,389)
Nursing service	27,195	27,195	20,105	7,090
Transportation	52,000	52,000	50,235	1,765
Maternal and child health	23,900	23,900	22,806	1,094
Miscellaneous	528,741	528,741	524,625	4,116
Total health	\$ 634,726	\$ 634,726	\$ 623,050	\$ 11,676
Total Expenditures	\$ 6,123,366	\$ 6,123,366	\$ 5,721,971	\$ 401,395
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 560,337	\$ 560,337
Fund Balance - January 1	3,826,077	3,826,077	3,826,077	-
Fund Balance - December 31	\$ 3,826,077	\$ 3,826,077	\$ 4,386,414	\$ 560,337

**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SALE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 206,000	\$ 206,000	\$ 355,585	\$ 149,585
Charges for services	30,000	30,000	27,980	(2,020)
Miscellaneous	1,800,150	1,800,150	1,481,794	(318,356)
Total Revenues	\$ 2,036,150	\$ 2,036,150	\$ 1,865,359	\$ (170,791)
Expenditures				
Current				
General government				
Law library	\$ 28,300	\$ 28,300	\$ 62,683	\$ (34,383)
Lifeline subsidy	300	300	61	239
Total general government	\$ 28,600	\$ 28,600	\$ 62,744	\$ (34,144)
Conservation of natural resources				
County development	\$ 242,761	\$ 242,761	\$ 194,729	\$ 48,032
Consolidated conservation	20,150	20,150	216	19,934
Forfeited tax	1,655,000	1,655,000	739,321	915,679
Total conservation of natural resources	\$ 1,917,911	\$ 1,917,911	\$ 934,266	\$ 983,645
Total Expenditures	\$ 1,946,511	\$ 1,946,511	\$ 997,010	\$ 949,501
Excess of Revenues Over (Under) Expenditures	\$ 89,639	\$ 89,639	\$ 868,349	\$ 778,710
Other Financing Sources (Uses)				
Transfers out	(80,000)	(80,000)	(758,671)	(678,671)
Change in Fund Balance	\$ 9,639	\$ 9,639	\$ 109,678	\$ 100,039
Fund Balance - January 1	1,777,038	1,777,038	1,777,038	-
Fund Balance - December 31	\$ 1,786,677	\$ 1,786,677	\$ 1,886,716	\$ 100,039

**AITKIN COUNTY
AITKIN, MINNESOTA**

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

1. Budgetary Information

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

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

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

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2008, expenditures exceeded appropriations in the General Fund by \$51,413 and the Road and Bridge Special Revenue Fund by \$1,360,312. The overexpenditures were funded by the use of fund balance.

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SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

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**AITKIN COUNTY
AITKIN, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

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

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

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

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

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

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

	<u>Special Revenue Funds</u>		
	<u>Forest Development</u>	<u>Unorganized Road, Bridge, and Fire</u>	<u>Ditch</u>
<u>Assets</u>			
Cash and pooled investments	\$ 1,657,631	\$ 484,564	\$ 7,864
Taxes receivable			
Prior	-	2,782	-
Special assessments receivable			
Prior	-	-	1,825
Noncurrent	-	-	19,813
Due from other funds	296,246	19,982	-
Due from other governments	15,426	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,969,303</u>	<u>\$ 507,328</u>	<u>\$ 29,502</u>
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 2,910	\$ 123	\$ 200
Salaries payable	17,050	-	-
Due to other funds	-	19,945	28,851
Deferred revenue - unavailable	-	2,210	21,638
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>\$ 19,960</u>	<u>\$ 22,278</u>	<u>\$ 50,689</u>
Fund Balances			
Reserved for environmental uses	\$ -	\$ -	\$ -
Unreserved			
Designated for debt service	-	-	-
Undesignated	1,949,343	485,050	(21,187)
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>\$ 1,949,343</u>	<u>\$ 485,050</u>	<u>\$ (21,187)</u>
Total Liabilities and Fund Balances	<u>\$ 1,969,303</u>	<u>\$ 507,328</u>	<u>\$ 29,502</u>

Statement 1

<u>Land Exchange Revolving Loan</u>	<u>Total</u>	<u>Debt Service Fund Jail Bond</u>	<u>Permanent Fund Environmental</u>	<u>Total Nonmajor Governmental Funds (Exhibit 3)</u>
\$ 43,163	\$ 2,193,222	\$ 172,294	\$ 483,765	\$ 2,849,281
-	2,782	17,402	-	20,184
-	1,825	-	-	1,825
-	19,813	-	-	19,813
-	316,228	-	-	316,228
260,800	276,226	-	-	276,226
<u>\$ 303,963</u>	<u>\$ 2,810,096</u>	<u>\$ 189,696</u>	<u>\$ 483,765</u>	<u>\$ 3,483,557</u>
\$ -	\$ 3,233	\$ -	\$ -	\$ 3,233
-	17,050	-	-	17,050
-	48,796	-	-	48,796
-	23,848	13,871	-	37,719
<u>\$ -</u>	<u>\$ 92,927</u>	<u>\$ 13,871</u>	<u>\$ -</u>	<u>\$ 106,798</u>
\$ -	\$ -	\$ -	\$ 483,765	\$ 483,765
-	-	175,825	-	175,825
303,963	2,717,169	-	-	2,717,169
<u>\$ 303,963</u>	<u>\$ 2,717,169</u>	<u>\$ 175,825</u>	<u>\$ 483,765</u>	<u>\$ 3,376,759</u>
<u>\$ 303,963</u>	<u>\$ 2,810,096</u>	<u>\$ 189,696</u>	<u>\$ 483,765</u>	<u>\$ 3,483,557</u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

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

	<u>Special Revenue Funds</u>		
	<u>Forest Development</u>	<u>Unorganized Road, Bridge, and Fire</u>	<u>Ditch</u>
Revenues			
Taxes	\$ -	\$ 86,275	\$ -
Licenses and permits	11,963	-	-
Special assessments	-	-	1,514
Intergovernmental	176,308	39,057	-
Investment earnings	-	-	921
Miscellaneous	21,169	20	-
Total Revenues	<u>\$ 209,440</u>	<u>\$ 125,352</u>	<u>\$ 2,435</u>
Expenditures			
Current			
General government	\$ -	\$ 1,893	\$ -
Public safety	-	17,540	-
Conservation of natural resources	571,944	-	2,400
Debt service			
Principal	-	-	-
Interest	-	-	-
Total Expenditures	<u>\$ 571,944</u>	<u>\$ 19,433</u>	<u>\$ 2,400</u>
Excess of Revenues Over (Under)			
Expenditures	<u>\$ (362,504)</u>	<u>\$ 105,919</u>	<u>\$ 35</u>
Other Financing Sources (Uses)			
Transfers in	\$ 296,728	\$ 19,982	\$ -
Transfers out	-	(88,983)	(998)
Total Other Financing Sources (Uses)	<u>\$ 296,728</u>	<u>\$ (69,001)</u>	<u>\$ (998)</u>
Net Change in Fund Balance	<u>\$ (65,776)</u>	<u>\$ 36,918</u>	<u>\$ (963)</u>
Fund Balance - January 1	<u>2,015,119</u>	<u>448,132</u>	<u>(20,224)</u>
Fund Balance - December 31	<u><u>\$ 1,949,343</u></u>	<u><u>\$ 485,050</u></u>	<u><u>\$ (21,187)</u></u>

Statement 2

<u>Land Exchange Revolving Loan</u>	<u>Total</u>	<u>Debt Service Fund Jail Bond</u>	<u>Permanent Fund Environmental</u>	<u>Total Nonmajor Governmental Funds (Exhibit 5)</u>
\$ -	\$ 86,275	\$ 362,094	\$ -	\$ 448,369
-	11,963	-	-	11,963
-	1,514	-	-	1,514
-	215,365	70,572	-	285,937
3,170	4,091	-	11,130	15,221
-	21,189	-	-	21,189
<u>\$ 3,170</u>	<u>\$ 340,397</u>	<u>\$ 432,666</u>	<u>\$ 11,130</u>	<u>\$ 784,193</u>
\$ -	\$ 1,893	\$ -	\$ -	\$ 1,893
-	17,540	-	-	17,540
-	574,344	-	-	574,344
-	-	295,000	-	295,000
-	-	118,500	-	118,500
<u>\$ -</u>	<u>\$ 593,777</u>	<u>\$ 413,500</u>	<u>\$ -</u>	<u>\$ 1,007,277</u>
<u>\$ 3,170</u>	<u>\$ (253,380)</u>	<u>\$ 19,166</u>	<u>\$ 11,130</u>	<u>\$ (223,084)</u>
\$ -	\$ 316,710	\$ -	\$ -	\$ 316,710
-	(89,981)	-	(25,738)	(115,719)
<u>\$ -</u>	<u>\$ 226,729</u>	<u>\$ -</u>	<u>\$ (25,738)</u>	<u>\$ 200,991</u>
\$ 3,170	\$ (26,651)	\$ 19,166	\$ (14,608)	\$ (22,093)
<u>300,793</u>	<u>2,743,820</u>	<u>156,659</u>	<u>498,373</u>	<u>3,398,852</u>
<u>\$ 303,963</u>	<u>\$ 2,717,169</u>	<u>\$ 175,825</u>	<u>\$ 483,765</u>	<u>\$ 3,376,759</u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
FOREST DEVELOPMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 4,000	\$ 4,000	\$ 11,963	\$ 7,963
Intergovernmental	147,000	147,000	176,308	29,308
Miscellaneous	17,050	17,050	21,169	4,119
Total Revenues	\$ 168,050	\$ 168,050	\$ 209,440	\$ 41,390
Expenditures				
Current				
Conservation of natural resources				
Forest resource	\$ 115,401	\$ 115,401	\$ 129,514	\$ (14,113)
Reforestation	418,961	418,961	166,508	252,453
Memorial forest	310,853	310,853	233,918	76,935
Forest road	47,816	47,816	42,004	5,812
Gravel pit	7,000	7,000	-	7,000
Total Expenditures	\$ 900,031	\$ 900,031	\$ 571,944	\$ 328,087
Excess of Revenues Over (Under)				
Expenditures	\$ (731,981)	\$ (731,981)	\$ (362,504)	\$ 369,477
Other Financing Sources (Uses)				
Transfers in	396,166	396,166	296,728	(99,438)
Change in Fund Balance	\$ (335,815)	\$ (335,815)	\$ (65,776)	\$ 270,039
Fund Balance - January 1	2,015,119	2,015,119	2,015,119	-
Fund Balance - December 31	\$ 1,679,304	\$ 1,679,304	\$ 1,949,343	\$ 270,039

**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 6

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 75,390	\$ 75,390	\$ 86,275	\$ 10,885
Intergovernmental	-	-	39,057	39,057
Miscellaneous	-	-	20	20
Total Revenues	\$ 75,390	\$ 75,390	\$ 125,352	\$ 49,962
Expenditures				
Current				
General government				
Other general government	\$ 1,740	\$ 1,740	\$ 1,893	\$ (153)
Public safety				
Emergency services	16,900	16,900	17,540	(640)
Total Expenditures	\$ 18,640	\$ 18,640	\$ 19,433	\$ (793)
Excess of Revenues Over (Under) Expenditures	\$ 56,750	\$ 56,750	\$ 105,919	\$ 49,169
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 19,982	\$ 19,982
Transfers out	(56,750)	(56,750)	(88,983)	(32,233)
Total Other Financing Sources (Uses)	\$ (56,750)	\$ (56,750)	\$ (69,001)	\$ (12,251)
Change in Fund Balance	\$ -	\$ -	\$ 36,918	\$ 36,918
Fund Balance - January 1	448,132	448,132	448,132	-
Fund Balance - December 31	\$ 448,132	\$ 448,132	\$ 485,050	\$ 36,918

**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 7

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ -	\$ -	\$ 1,514	\$ 1,514
Investment earnings	2,751	2,751	921	(1,830)
Total Revenues	\$ 2,751	\$ 2,751	\$ 2,435	\$ (316)
Expenditures				
Current				
Conservation				
Conservation of natural resources	4,262	4,262	2,400	1,862
Excess of Revenues Over (Under) Expenditures	\$ (1,511)	\$ (1,511)	\$ 35	\$ 1,546
Other Financing Sources (Uses)				
Transfers out	-	-	(998)	(998)
Change in Fund Balance	\$ (1,511)	\$ (1,511)	\$ (963)	\$ 548
Fund Balance - January 1	(20,224)	(20,224)	(20,224)	-
Fund Balance - December 31	\$ (21,735)	\$ (21,735)	\$ (21,187)	\$ 548

**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 8

**BUDGETARY COMPARISON SCHEDULE
JAIL BOND DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 439,688	\$ 439,688	\$ 362,094	\$ (77,594)
Intergovernmental	-	-	70,572	70,572
Total Revenues	\$ 439,688	\$ 439,688	\$ 432,666	\$ (7,022)
Expenditures				
Debt service				
Principal	\$ 290,000	\$ 290,000	\$ 295,000	\$ (5,000)
Interest	125,750	125,750	118,500	7,250
Total Expenditures	\$ 415,750	\$ 415,750	\$ 413,500	\$ 2,250
Change in Fund Balance	\$ 23,938	\$ 23,938	\$ 19,166	\$ (4,772)
Fund Balance - January 1	156,659	156,659	156,659	-
Fund Balance - December 31	\$ 180,597	\$ 180,597	\$ 175,825	\$ (4,772)

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FIDUCIARY FUNDS

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**AITKIN COUNTY
AITKIN, MINNESOTA**

Statement 3

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>532,946</u>	\$ <u>8,802,228</u>	\$ <u>8,799,447</u>	\$ <u>535,727</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>532,946</u>	\$ <u>8,802,228</u>	\$ <u>8,799,447</u>	\$ <u>535,727</u>
 <u>COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>151,399</u>	\$ <u>63,573</u>	\$ <u>83,360</u>	\$ <u>131,612</u>
<u>Liabilities</u>				
Accounts payable	\$ <u>151,399</u>	\$ <u>63,573</u>	\$ <u>83,360</u>	\$ <u>131,612</u>
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>120,897</u>	\$ <u>3,008,503</u>	\$ <u>2,999,244</u>	\$ <u>130,156</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>120,897</u>	\$ <u>3,008,503</u>	\$ <u>2,999,244</u>	\$ <u>130,156</u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

***Statement 3
(Continued)***

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 22,383,358	\$ 22,383,358	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 22,383,358	\$ 22,383,358	\$ -
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 805,242	\$ 34,257,662	\$ 34,265,409	\$ 797,495
<u>Liabilities</u>				
Accounts payable	\$ 151,399	\$ 63,573	\$ 83,360	\$ 131,612
Due to other governments	653,843	34,194,089	34,182,049	665,883
Total Liabilities	\$ 805,242	\$ 34,257,662	\$ 34,265,409	\$ 797,495

COMPONENT UNIT

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AITKIN MUNICIPAL AIRPORT COMMISSION

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**AITKIN COUNTY
AITKIN, MINNESOTA**

Statement 4

**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
COMPONENT UNIT
AITKIN MUNICIPAL AIRPORT COMMISSION
DECEMBER 31, 2008**

	<u>General Fund</u>	<u>Adjustments (See Below)</u>	<u>Governmental Activities</u>
<u>Assets</u>			
Capital assets			
Non-depreciable	\$ -	\$ 106,426	\$ 106,426
Depreciable - net	-	<u>1,046,525</u>	<u>1,046,525</u>
Total Assets	<u><u>\$ -</u></u>	<u><u>\$ 1,152,951</u></u>	<u><u>\$ 1,152,951</u></u>
 <u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved			
Undesignated	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	
Net Assets			
Invested in capital assets		\$ 1,152,951	\$ 1,152,951
Unrestricted		<u>-</u>	<u>-</u>
Total Net Assets		<u><u>\$ 1,152,951</u></u>	<u><u>\$ 1,152,951</u></u>
 Reconciliation of the General Fund Balance to Net Assets			
Fund Balance - General Fund			\$ -
Capital assets are reported in the Statement of Net Assets but not in the Fund Balance Sheet.			<u>1,152,951</u>
Net Assets - Governmental Activities			<u><u>\$ 1,152,951</u></u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

Statement 5

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
COMPONENT UNIT
AITKIN MUNICIPAL AIRPORT COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 2008**

	General Fund	Adjustments (See Below)	Governmental Activities
Revenues			
Intergovernmental	\$ 306,411	\$ -	\$ 306,411
Charges for services	6,844	-	6,844
Investment earnings	17	-	17
Total Revenues	\$ 313,272	\$ -	\$ 313,272
Expenditures/Expenses			
Current			
Economic development	\$ 97,096	\$ 32,715	\$ 129,811
Capital outlay	240,149	(240,149)	-
Total Expenditures/Expenses	\$ 337,245	\$ (207,434)	\$ 129,811
Net Change in Fund Balance/Net Assets	\$ (23,973)	\$ 207,434	\$ 183,461
Fund Balance/Net Assets - January 1	23,973	945,517	969,490
Fund Balance/Net Assets - December 31	\$ -	\$ 1,152,951	\$ 1,152,951

Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities of Governmental Activities

Net Change in Fund Balance **\$ (23,973)**

Governmental funds report capital outlays 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.

Capital outlay	240,149
Depreciation expense	(32,715)

Change in Net Assets of Governmental Activities **\$ 183,461**

OTHER SCHEDULES

**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 9

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

	<u>Governmental Funds</u>	<u>Enterprise Fund</u>	<u>Total Primary Government</u>	<u>Component Unit</u>
Shared Revenue				
State				
Highway users tax	\$ 5,583,067	\$ -	\$ 5,583,067	\$ -
PERA rate reimbursement	28,165	1,888	30,053	-
Disparity reduction aid	11,950	-	11,950	-
Police aid	119,189	-	119,189	-
County program aid	239,655	-	239,655	-
Market value credit	891,324	-	891,324	-
Taconite credit	587,503	-	587,503	-
Enhanced 911	89,569	-	89,569	-
Total Shared Revenue	\$ 7,550,422	\$ 1,888	\$ 7,552,310	\$ -
Reimbursement for Services				
State				
Minnesota Department of Human Services	\$ 537,619	\$ -	\$ 537,619	\$ -
Payments				
Local				
Local contributions	\$ 42,446	\$ -	\$ 42,446	\$ 15,422
Payments in lieu of taxes	1,255,963	-	1,255,963	-
Total Payments	\$ 1,298,409	\$ -	\$ 1,298,409	\$ 15,422
Grants				
State				
Minnesota Department/Board of Public Safety	\$ 53,639	\$ -	\$ 53,639	\$ -
Transportation	-	-	-	55,607
Health	103,467	-	103,467	-
Natural Resources	279,017	-	279,017	-
Human Services	772,327	-	772,327	-
Water and Soil Resources	80,785	-	80,785	-
Office of Environmental Assistance	55,000	-	55,000	-
Total State	\$ 1,344,235	\$ -	\$ 1,344,235	\$ 55,607

**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 9
(Continued)

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

	<u>Governmental Funds</u>	<u>Enterprise Fund</u>	<u>Total Primary Government</u>	<u>Component Unit</u>
Grants (Continued)				
Federal				
Department of				
Agriculture	\$ 177,335	\$ -	\$ 177,335	\$ -
Transportation	516,443	-	516,443	235,382
Health and Human Services	1,526,949	-	1,526,949	-
Homeland Security	31,872	-	31,872	-
Total Federal	\$ 2,252,599	\$ -	\$ 2,252,599	\$ 235,382
Total State and Federal Grants	\$ 3,596,834	\$ -	\$ 3,596,834	\$ 290,989
Total Intergovernmental Revenue	\$ 12,983,284	\$ 1,888	\$ 12,985,172	\$ 306,411

**AITKIN COUNTY
AITKIN, MINNESOTA**

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

	Assets			
	Cash	Special Assessments Receivable	Due from Other Ditches	Total
County Ditches				
2	\$ -	\$ -	\$ -	\$ -
5	(11,140)	-	-	(11,140)
13	-	-	-	-
14	-	-	-	-
20	(747)	-	-	(747)
21	(421)	-	-	(421)
22	-	-	-	-
23	(443)	-	-	(443)
24	(20,658)	369	1,500	(18,789)
25	(240)	-	-	(240)
28	(2,144)	-	-	(2,144)
29	-	-	-	-
30	28,683	1,294	11,861	41,838
34	961	978	-	1,939
36	2,755	1,208	-	3,963
37	(2,463)	8,425	-	5,962
42	(1,518)	-	-	(1,518)
43	(76)	-	-	(76)
58	(130)	-	-	(130)
63	1,513	9,201	-	10,714
66	1,670	-	-	1,670
88	-	-	-	-
Judicial Ditch				
2	12,262	163	-	12,425
Total	\$ 7,864	\$ 21,638	\$ 13,361	\$ 42,863

Schedule 10

		Liabilities					Total
Accounts Payable	Due to Other Funds	Deferred Revenue	Due to Other Ditches	Total	Fund Balance	and Fund Balance	
\$ -	\$ 1,160	\$ -	\$ -	\$ 1,160	\$ (1,160)	\$ -	
-	3,654	-	7,250	10,904	(22,044)	(11,140)	
-	1,443	-	-	1,443	(1,443)	-	
-	317	-	-	317	(317)	-	
-	-	-	-	-	(747)	(747)	
-	756	-	-	756	(1,177)	(421)	
-	371	-	-	371	(371)	-	
-	241	-	-	241	(684)	(443)	
200	243	369	-	812	(19,601)	(18,789)	
-	-	-	-	-	(240)	(240)	
-	7,859	-	1,287	9,146	(11,290)	(2,144)	
-	265	-	-	265	(265)	-	
-	-	1,294	-	1,294	40,544	41,838	
-	-	978	65	1,043	896	1,939	
-	-	1,208	65	1,273	2,690	3,963	
-	564	8,425	2,173	11,162	(5,200)	5,962	
-	1,527	-	935	2,462	(3,980)	(1,518)	
-	149	-	76	225	(301)	(76)	
-	-	-	-	-	(130)	(130)	
-	9,938	9,201	-	19,139	(8,425)	10,714	
-	-	-	1,510	1,510	160	1,670	
-	364	-	-	364	(364)	-	
-	-	163	-	163	12,262	12,425	
\$ 200	\$ 28,851	\$ 21,638	\$ 13,361	\$ 64,050	\$ (21,187)	\$ 42,863	

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**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 11

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

I. SUMMARY OF AUDITOR'S RESULTS

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

Child Support Enforcement	CFDA #93.563
Medical Assistance	CFDA #93.778
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Aitkin County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-5 Departmental Internal Accounting Controls

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

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

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

Client's Response:

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

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

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

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

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

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

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

We recommend the County Auditor and Treasurer segregate these functions as much as possible. If it is not possible to segregate these duties, County management should be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that the internal control policies and procedures are being performed by staff. One possible oversight procedure is to distribute detailed monthly revenue and expenditure reports to department heads and require them to affirm they have reviewed the reports and concur with the revenues and expenditures reported for their department. Another possible oversight procedure is to have someone independent of cash collections and disbursements review the bank reconciliations.

Client's Response:

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

06-2 Preparation of Financial Statements

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

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

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

Client's Response:

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

06-3 Accounting Policies and Procedures Manual

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

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

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

Client's Response:

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

06-5 Budgeting

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

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

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

Client's Response:

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

06-6 Payroll

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

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

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

Client's Response:

The Treasurer's office staff reviews payroll payments. The County Auditor reviews annual payroll reports. A recommendation has been made for the Human Resources Department to review payroll/employee changes.

06-8 Computer Risk Management

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

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

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

Client's Response:

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

06-10 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. Statement on Auditing Standards 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

During our audit, we identified material adjustments in the Road and Bridge Special Revenue Fund. Receivables were increased by \$1,611,881 for state-aid highway project allotments, federal highway aid, and bridge bonding funding. At the fund level, revenue was offset by deferred revenue of \$1,735,277 for receivables not available during the revenue recognition period.

County officials are aware that audit adjustments are made for the state-aid highway project allotments, federal highway aid, and bridge bonding funding each year, and they rely on the independent external auditors to assist in making the necessary adjustments to the financial statements. Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

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

Client's Response:

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

PREVIOUSLY REPORTED ITEM RESOLVED

Jail - Cash Deposits (07-1)

At the time of our prior audit, collections for commissary sales at the County jail had not been deposited in approximately six months.

Resolution

Collections for commissary sales are now deposited at least monthly.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Prompt Payment of Invoices (07-2)

Minn. Stat. § 471.425 requires the County to make payment on vendor invoices according to the terms of the contract or within 35 days of the completed delivery of goods or services or the receipt of the invoice, whichever is later. In the prior audit, four of 45 vouchers tested had invoices that were not paid within the 35-day time period required by the statute.

Resolution

During the current audit, no vouchers tested had invoices that were not paid within the 35-day time period required by the statute.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-3 Ditch Fund Balance Deficits

Eighteen of the 23 individual ditch systems had deficit unreserved, undesignated fund balances as of December 31, 2008, totaling \$81,594, the largest being \$22,044. As provided by Minn. Stat. § 103E.735, subd. 1, a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

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

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

The DNR adopted permanent rules on the subject in March 2008. *See* 32 Minn. Reg. 1697-1699 (March 10, 2008). The rules set out procedures that must be followed to redetermine drainage project benefits to state-owned lands in consolidated conservation areas. *See generally* Minn. R. 6115.1500-6115.1550. The process outlined in the rules can result in DNR authorization to impose assessments. *See* Minn. R. 6115.1530.

We recommend that the County review the new DNR rules and consider following the procedures they prescribe regarding ditches benefiting state land in consolidated conservation areas. We recommend that the County eliminate the ditch system fund balance deficits by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus balance to provide for the repair and maintenance costs of a ditch system and repay the solvent ditch funds for the intrafund loans.

Client's Response:

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

03-3

Aitkin Municipal Airport Commission

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

The agreement between the County and City creating the Aitkin Municipal Airport Commission, dated September 8, 1971, established two special funds to account for airport activities. The agreement specifies airport activities are to be accounted for by the County Auditor. Current accounting procedures are not in compliance with accounting procedures specified in the agreement. We also noted that the agreement establishes the Airport Commission's fiscal year-end as April 30. However, the Airport Commission is reported with the County's financial statements on a calendar year basis. In December 2008, the County Board approved transfer of the remaining cash at the County to the City of Aitkin and authorized the City to take over all accounting and collections for the Airport Commission. However, a formal written agreement to this effect was not prepared or signed by the two parties.

We recommend the City and County amend the Aitkin Municipal Airport Commission agreement and change its fiscal year-end to December 31. Current accounting procedures should be reviewed and modified to ensure compliance with the agreement.

Client's Response:

The Airport Commission is working on updating the joint powers agreement. Fiscal administration was consolidated under the City of Aitkin in 2008.

06-11 Long Lake Conservation Center Deficit Cash Balance

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

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

December 31, 2008	\$ 141,151
December 31, 2007	159,472
December 31, 2006	149,059

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

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

Client's Response:

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

PREVIOUSLY REPORTED ITEM RESOLVED

Inventory (07-3)

During our prior audit, we noted a discrepancy between the physical inventory and the inventory reported on the County's perpetual inventory system.

Resolution

The Highway Department implemented new procedures for the gravel inventory.



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
Aitkin County

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Aitkin County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-5, 06-1 through 06-3, 06-5, 06-6, 06-8, and 06-10 to be significant deficiencies in internal control over financial reporting.

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

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

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

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 16, 2009

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Aitkin County

Compliance

We have audited the compliance of Aitkin County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. Aitkin County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs are the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

Aitkin County's financial statements include the operations of the Aitkin Municipal Airport Commission, a discretely presented component unit, which expended \$235,382 in federal awards during the year ended December 31, 2008, which are not included in the Schedule of Expenditures of Federal Awards because those funds were included in the audit of the City of Aitkin.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Aitkin County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Aitkin County complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

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

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Aitkin County as of and for the year ended December 31, 2008, and have issued our report thereon dated December 16, 2009. Our audit was performed for the purpose of forming opinions on the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

December 16, 2009

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 12

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 78,302
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	99,033
Total U.S. Department of Agriculture		\$ 177,335
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,570,400
State and Community Highway Safety	20.600	1,780
Total U.S. Department of Transportation		\$ 1,572,180
U.S. Department of Health and Human Services		
Passed Through Arrowhead Regional Development Commission National Family Caregiver Support	93.052	\$ 13,293
Passed Through Minnesota Department of Health Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	34,234
Maternal and Child Health Services Block Grant	93.994	27,304
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	5,014
Temporary Assistance for Needy Families (TANF)	93.558	266,373
Child Support Enforcement	93.563	425,443
Refugee and Entrant Assistance	93.566	102
Child Care Cluster Block Grant - Child Care and Development	93.575	10,541
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	2,301
Foster Care Title IV-E	93.658	159,787
Social Services Block Grant Title XX	93.667	120,663
Chafee Foster Care Independence Program	93.674	2,749
State Children's Insurance Program	93.767	262
Medical Assistance Program	93.778	454,879
Community Mental Health Block Grant	93.958	4,004
Total U.S. Department of Health and Human Services		\$ 1,526,949

**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 12
(Continued)

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 28,959
Passed Through Minnesota Department of Public Safety Homeland Security Grant Program	97.067	<u>2,913</u>
Total U.S. Department of Homeland Security		\$ <u>31,872</u>
Total Federal Awards		\$ <u><u>3,308,336</u></u>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Aitkin County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Expenditures on this schedule differ from federal revenues reported due to certain expenditures reported when the revenues are not available for recognition using the modified accrual basis of accounting. In 2008, there was \$472,955 of prior year deferred revenue which became available and \$1,528,692 of current year deferred revenue for expenditures where the corresponding revenue was not available.
3. Aitkin County did not pass any federal money to subrecipients in 2008.
4. Pass-through grant numbers were not assigned by the pass-through agencies.
5. Expenditures for the federal award granted to the Municipal Airport Commission are not included on this schedule because the audit of those funds was included with the audit of the City of Aitkin.