

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

AITKIN COUNTY
AITKIN, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012



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

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**AITKIN COUNTY
AITKIN, MINNESOTA**

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**AITKIN COUNTY
AITKIN, MINNESOTA**

ORGANIZATION
AS OF DECEMBER 31, 2012

		<u>Term Expires</u>
Elected		
Commissioners		
District 1	Mark Wedel**	January 2014
District 2	Laurie Westerlund*	January 2016
District 3	Donald Niemi	January 2014
District 4	Brian Napstad	January 2016
District 5	Anne Marcotte	January 2014
Attorney	Jim Ratz	January 2015
Auditor	Kirk Peysar	January 2015
Recorder	Diane Lafferty	January 2015
Sheriff	Scott Turner	January 2015
Treasurer	Lori Grams	January 2015
Appointed		
Administrator	Patrick Wussow	Indefinite
Assessor	Mike Dangers	December 2016
Engineer	John Welle	December 2016
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
*Chair		
**Vice Chair		

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Aitkin County

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Aitkin County, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinions.

Basis for Qualified Opinions on Governmental Activities and Business-Type Activities

We were unable to obtain a discussion or evaluation from Aitkin County's legal counsel of any litigation, claims, assessments, and unasserted claims or an estimate of the financial implications involved. Consequently, we were unable to determine whether any adjustments to the financial statements of the governmental activities or business-type activities were necessary.

Qualified Opinions

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinions on Governmental Activities and Business-Type Activities paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and business-type activities of Aitkin County as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Aitkin County as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Aitkin County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2013, 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* in considering Aitkin County's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**AITKIN COUNTY
AITKIN, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(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, 2012. 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 a total net position of \$105,259,083 of which \$82,082,710 is the net investment in capital assets, and \$4,872,147 is restricted to specific purposes.
- Business-type activities have a total net position of \$3,554,331. Net investment in capital assets represents \$3,933,907 of the total. Of the total business-type net position, \$2,000 is restricted for specific uses.
- Aitkin County's net position increased by \$4,320,145 for the year ended December 31, 2012. Of the increase, \$4,408,574 was in governmental activities and there was a decrease of \$88,429 in business-type activities.
- The cost of primary government activities increased by \$239,888 to \$26,831,455 for the current fiscal year. Program revenues of \$16,124,363 offset those costs. A portion of the net cost was funded by general revenues and other items totaling \$15,027,237.
- Governmental funds' fund balances decreased by \$2,338,297.

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 Position 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 Position and Statement of Activities

The Statement of Net Position 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 position and changes in them. You can think of the County's net position, 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 position 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 Position and the Statement of Activities, we divide the County into two kinds of activities:

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

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

Fund Financial Statements

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

Governmental funds--Most of the County's basic services are reported in governmental funds, which focus on how money flows in to and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position 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 Position 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 Position. 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 position (Table 1) and changes in net position (Table 2) of the County's governmental and business-type activities for the year ended December 31, 2012, with comparative amounts for 2011. Unless otherwise indicated, all amounts are in thousands.

**Table 1
Net Position**

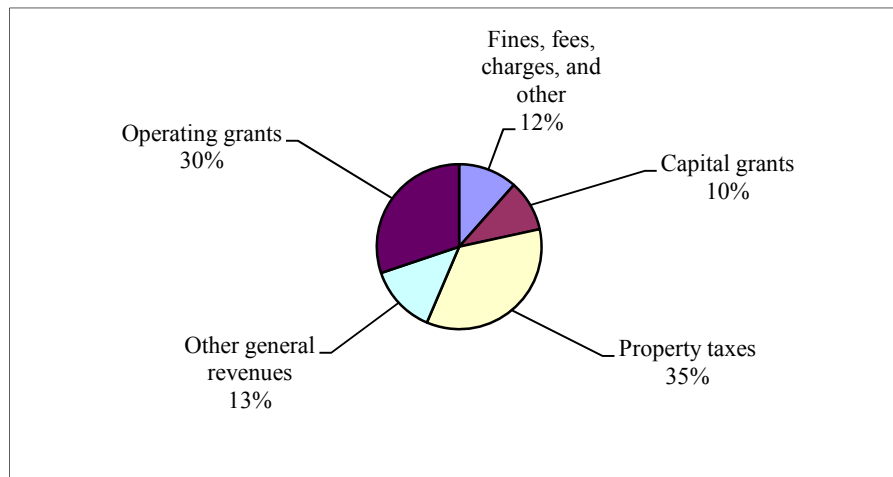
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 36,085	\$ 29,695	\$ (338)	\$ (272)	\$ 35,747	\$ 29,423
Capital assets	82,839	76,812	3,934	3,978	86,773	80,790
Total Assets	\$ 118,924	\$ 106,507	\$ 3,596	\$ 3,706	\$ 122,520	\$ 110,213
Long-term debt outstanding	\$ 1,818	\$ 2,298	\$ 15	\$ 17	\$ 1,833	\$ 2,315
Other liabilities	11,847	3,359	27	46	11,874	3,405
Total Liabilities	\$ 13,665	\$ 5,657	\$ 42	\$ 63	\$ 13,707	\$ 5,720
Net position						
Net investment in capital assets	\$ 82,083	\$ 75,669	\$ 3,934	\$ 3,979	\$ 86,017	\$ 79,648
Restricted	4,872	5,243	2	2	4,874	5,245
Unrestricted	18,304	19,938	(382)	(338)	17,922	19,600
Total Net Position	\$ 105,259	\$ 100,850	\$ 3,554	\$ 3,643	\$ 108,813	\$ 104,493

**Table 2
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Fines, fees, charges, and other	\$ 3,000	\$ 3,377	\$ 596	\$ 587	\$ 3,596	\$ 3,964
Operating grants	9,385	8,125	12	20	9,397	8,145
Capital grants	3,030	1,278	101	390	3,131	1,668
General revenues						
Property taxes	10,848	9,816	-	-	10,848	9,816
Other taxes	1,131	1,424	-	-	1,131	1,424
Grants and contributions	1,101	1,551	-	1	1,101	1,552
Other general revenues	1,947	1,940	-	-	1,947	1,940
Total Revenues	\$ 30,442	\$ 27,511	\$ 709	\$ 998	\$ 31,151	\$ 28,509
Expenses						
General government	\$ 5,238	\$ 5,147	\$ -	\$ -	\$ 5,238	\$ 5,147
Public safety	5,062	5,635	-	-	5,062	5,635
Highways and streets	6,442	5,212	-	-	6,442	5,212
Sanitation	574	282	-	-	574	282
Human services	5,212	5,337	-	-	5,212	5,337
Health	665	669	-	-	665	669
Culture and recreation	866	765	-	-	866	765
Conservation of natural resources	1,871	2,624	798	808	2,669	3,432
Economic development	66	58	-	-	66	58
Interest	37	55	-	-	37	55
Total Expenses	\$ 26,033	\$ 25,784	\$ 798	\$ 808	\$ 26,831	\$ 26,592

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Increase (Decrease) in Net Position	\$ 4,409	\$ 1,727	\$ (89)	\$ 190	\$ 4,320	\$ 1,917
Net Position, January 1	100,850	99,123	3,643	3,453	104,493	102,576
Net Position, December 31	<u>\$ 105,259</u>	<u>\$ 100,850</u>	<u>\$ 3,554</u>	<u>\$ 3,643</u>	<u>\$ 108,813</u>	<u>\$ 104,493</u>

Total County Revenues by Source



Governmental Activities

The cost of all activities this year was \$26,033. However, as shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through County taxes was \$10,848 because some of the cost was paid by those who directly benefited from the programs (\$3,000) or by other governments and organizations that subsidized certain programs with grants and contributions (\$12,415).

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

**Table 3
Governmental Activities**

Activity	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
General government	\$ 5,238	\$ 5,147	\$ 4,101	\$ 3,934
Public safety	5,062	5,635	2,904	4,253
Highways and streets	6,442	5,212	(1,028)	(768)
Human services	5,212	5,337	2,176	2,668
Conservation of natural resources	1,871	2,624	879	1,905
Totals	<u>\$ 23,825</u>	<u>\$ 23,955</u>	<u>\$ 9,032</u>	<u>\$ 11,992</u>

Business-Type Activities

The revenues of the County’s business-type activities decreased by 29.0 percent, primarily due to the receipt of an energy grant in 2011 which was not received in 2012. Income from fees increased 1.5 percent, and expenses decreased by 1.2 percent.

The County’s Funds

As the County completed the year, its governmental funds reported a combined fund balance of \$20,879, which is below last year’s total of \$23,148. The Road and Bridge Special Revenue Fund’s change in fund balance (an increase of \$801 for 2012) represented the largest increase in governmental fund balances. Most of the Road and Bridge Special Revenue Fund’s increase is due to receiving federal grants. The Health and Human Services Special Revenue Fund balance increased \$439. The General Fund saw a reduction in fund balance of \$3,538.

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) were \$1,985 over the final budget amounts. Significant positive variances include the following: general government revenues were greater than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the County had \$86,773 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 \$5,983, or 7.4 percent, over the last year.

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

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$ 2,754	\$ 2,632	\$ 15	\$ 15	\$ 2,769	\$ 2,647
Construction in progress	2,350	370	-	95	2,350	465
Buildings and improvements	8,357	8,548	3,895	3,848	12,252	12,396
Machinery and equipment	2,577	2,331	24	20	2,601	2,351
Infrastructure	66,801	62,931	-	-	66,801	62,931
Totals	\$ 82,839	\$ 76,812	\$ 3,934	\$ 3,978	\$ 86,773	\$ 80,790

This year's major additions include:

CSAH 3	Mill, Reclaim and Bituminous Base and Wear	\$ 2,030
CSAH 32	Grading and Aggregate Base	1,310
CSAH 5	Grading and Aggregate Base	678

The County's fiscal year 2013 capital budget calls for it to spend another \$3,883 for capital projects, principally for highways and streets improvements. Additional information on capital assets is found in Note 3.A.3. to the financial statements.

Debt

At year-end, the County had \$896 in bonds, notes, and loans outstanding, versus \$1,264 last year, a decrease of 29.1 percent, as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	Governmental Activities	
	2012	2011
General obligation bonds (backed by the County)	\$ 715	\$ 1,080
General obligation revenue notes	50	50
Clear Water Partnership Project notes	2	5
Minnesota Department of Agriculture loans	129	129
Totals	\$ 896	\$ 1,264

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 \$88,856 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 2013 budget, tax rates, and fees that will be charged for the business-type activities.

- Further increases in the unemployment rate in 2013 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 County will be implementing its portion of the Affordable Care Act (ACA) programs.
- The potential for deflation in real estate market values could result in tax rate increases.
- The Minnesota State Legislature imposed levy limits for 2014.

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 POSITION
DECEMBER 31, 2012**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	\$ 30,200,500	\$ -	\$ 30,200,500
Petty cash and change funds	6,000	1,350	7,350
Departmental cash	926	-	926
Cash with fiscal agent	145,929	-	145,929
Taxes receivable			
Prior - net	562,217	-	562,217
Special assessments receivable			
Prior - net	1,825	-	1,825
Noncurrent - net	15,274	-	15,274
Accounts receivable - net	2,127,188	500	2,127,688
Accrued interest receivable	105,063	-	105,063
Loan receivable	102,810	-	102,810
Internal balances	366,371	(366,371)	-
Due from other governments	2,065,112	19,917	2,085,029
Inventories	347,685	4,957	352,642
Prepaid items	5,181	-	5,181
Deposits receivable	25,000	-	25,000
Restricted assets			
Cash and pooled investments	-	2,000	2,000
Deferred charges	7,247	-	7,247
Capital assets			
Non-depreciable	5,103,820	15,400	5,119,220
Depreciable - net of accumulated depreciation	77,735,603	3,918,507	81,654,110
Total Assets	\$ 118,923,751	\$ 3,596,260	\$ 122,520,011
Liabilities			
Accounts payable	\$ 350,011	\$ 10,195	\$ 360,206
Salaries payable	512,090	14,573	526,663
Contracts payable	519,945	-	519,945
Due to other governments	402,238	1,936	404,174
Timber permit bonds	84,669	-	84,669
Advance from other governments	1,077,727	-	1,077,727
Unearned revenue	8,900,000	-	8,900,000
Long-term liabilities			
Due within one year	1,104,331	15,225	1,119,556
Due in more than one year	713,657	-	713,657
Total Liabilities	\$ 13,664,668	\$ 41,929	\$ 13,706,597

**AITKIN COUNTY
AITKIN, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Net Position</u>			
Net investment in capital assets	\$ 82,082,710	\$ 3,933,907	\$ 86,016,617
Restricted for			
General government	1,534,247	-	1,534,247
Public safety	629,651	-	629,651
Highways and streets	55,681	-	55,681
Sanitation	652,851	-	652,851
Culture and recreation	113,061	-	113,061
Conservation of natural resources	718,200	-	718,200
Economic development	451,873	-	451,873
Unorganized road, bridge, and fire	489,927	-	489,927
Debt service	226,656	-	226,656
Other purposes	-	2,000	2,000
Unrestricted	18,304,226	(381,576)	17,922,650
Total Net Position	\$ 105,259,083	\$ 3,554,331	\$ 108,813,414

**AITKIN COUNTY
AITKIN, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Primary government		
Governmental activities		
General government	\$ 5,237,642	\$ 1,024,818
Public safety	5,061,903	704,742
Highways and streets	6,441,869	489,991
Sanitation	573,733	15,620
Human services	5,211,780	611,924
Health	665,532	128,604
Culture and recreation	866,046	19,218
Conservation of natural resources	1,871,368	1,513
Economic development	66,412	3,085
Interest	36,858	-
Total governmental activities	\$ 26,033,143	\$ 2,999,515
Business-type activities		
Long Lake Conservation Center	798,312	596,381
Total Primary Government	\$ 26,831,455	\$ 3,595,896

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 position

Net Position - Beginning

Net Position - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
		Governmental Activities	Business-Type Activities	Total
\$ 111,745	\$ -	\$ (4,101,079)	\$ -	\$ (4,101,079)
1,093,669	359,428	(2,904,064)	-	(2,904,064)
4,533,746	2,446,065	1,027,933	-	1,027,933
-	-	(558,113)	-	(558,113)
2,423,564	-	(2,176,292)	-	(2,176,292)
370,849	-	(166,079)	-	(166,079)
84,922	-	(761,906)	-	(761,906)
766,983	224,000	(878,872)	-	(878,872)
-	-	(63,327)	-	(63,327)
-	-	(36,858)	-	(36,858)
\$ 9,385,478	\$ 3,029,493	\$ (10,618,657)	\$ -	\$ (10,618,657)
12,156	101,340	-	(88,435)	(88,435)
\$ 9,397,634	\$ 3,130,833	\$ (10,618,657)	\$ (88,435)	\$ (10,707,092)
		\$ 10,848,237	\$ -	\$ 10,848,237
		18,447	-	18,447
		16,432	-	16,432
		1,095,830	-	1,095,830
		1,100,934	-	1,100,934
		364,174	6	364,180
		1,583,177	-	1,583,177
		\$ 15,027,231	\$ 6	\$ 15,027,237
		\$ 4,408,574	\$ (88,429)	\$ 4,320,145
		100,850,509	3,642,760	104,493,269
		\$ 105,259,083	\$ 3,554,331	\$ 108,813,414

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
DECEMBER 31, 2012**

	<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	\$ 9,690,261	\$ 11,223,171	\$ 4,783,514	\$ 2,151,008	\$ 2,352,546	\$ 30,200,500
Petty cash and change funds	3,000	-	3,000	-	-	6,000
Departmental cash	926	-	-	-	-	926
Cash with fiscal agent	145,929	-	-	-	-	145,929
Taxes receivable						
Prior	299,187	108,471	131,276	-	23,283	562,217
Special assessments						
Prior	-	-	-	-	1,825	1,825
Noncurrent	-	-	-	-	15,274	15,274
Accounts receivable	90	891	31,002	2,095,205	-	2,127,188
Accrued interest receivable	105,063	-	-	-	-	105,063
Loans receivable	102,810	-	-	-	-	102,810
Due from other funds	587,782	34,463	-	-	260,122	882,367
Due from other governments	533,568	1,082,929	409,488	5,308	33,819	2,065,112
Prepaid expense	-	-	5,181	-	-	5,181
Inventories	-	347,685	-	-	-	347,685
Deposits receivable	25,000	-	-	-	-	25,000
Total Assets	\$ 11,493,616	\$ 12,797,610	\$ 5,363,461	\$ 4,251,521	\$ 2,686,869	\$ 36,593,077
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 118,931	\$ 85,962	\$ 132,559	\$ 5,238	\$ 7,321	\$ 350,011
Salaries payable	281,270	73,966	125,088	21,358	10,408	512,090
Contracts payable	-	519,945	-	-	-	519,945
Due to other funds	-	-	7,332	474,201	34,463	515,996
Due to other governments	231,593	7,982	14,039	147,759	865	402,238
Advances from other governments	-	1,077,727	-	-	-	1,077,727
Deferred revenue - unavailable	533,143	575,664	109,833	2,095,205	37,151	3,350,996
Deferred revenue - unearned	-	8,900,000	-	-	-	8,900,000
Timber permit bonds	-	-	-	84,669	-	84,669
Total Liabilities	\$ 1,164,937	\$ 11,241,246	\$ 388,851	\$ 2,828,430	\$ 90,208	\$ 15,713,672

**AITKIN COUNTY
AITKIN, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
DECEMBER 31, 2012**

	<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>
Liabilities and Fund Balances						
(Continued)						
Fund Balances						
Nonspendable						
Inventories	\$ -	\$ 347,685	\$ -	\$ -	\$ -	\$ 347,685
Capital membership	25,000	-	-	-	-	25,000
Restricted for						
Debt service	1,807	-	-	-	224,849	226,656
Recorder's technology	288,665	-	-	-	-	288,665
Attorney forfeited property	5,000	-	-	-	-	5,000
Enhanced 911	549,494	-	-	-	-	549,494
Sheriff's contingency	3,235	-	-	-	-	3,235
Permit to carry	75,618	-	-	-	-	75,618
Conservation of natural resources	24,697	-	-	-	-	24,697
Loans receivable	102,810	-	-	-	-	102,810
Solid waste	652,851	-	-	-	-	652,851
Recorder's equipment purchases	315,478	-	-	-	-	315,478
Parks	113,061	-	-	-	-	113,061
Sobriety court fees	1,304	-	-	-	-	1,304
Missing heirs	-	-	-	20,090	-	20,090
County development	-	-	-	451,873	-	451,873
Law library	-	-	-	49,381	-	49,381
Unclaimed property	-	-	-	1,815	-	1,815
Forfeited tax sale	-	-	-	46,114	-	46,114
Worker's compensation	-	-	-	853,818	-	853,818
Unorganized road, bridge, and fire	-	-	-	-	489,927	489,927
Ditch maintenance and repairs	-	-	-	-	57,307	57,307
Environmental uses	-	-	-	-	487,272	487,272
Assigned for						
Highways and streets	2,543,081	1,208,679	-	-	-	3,751,760
Public safety	2,155,328	-	-	-	-	2,155,328
Health and human services	-	-	4,974,610	-	-	4,974,610
Forest development	-	-	-	-	1,367,814	1,367,814
Unassigned	3,471,250	-	-	-	(30,508)	3,440,742
Total Fund Balances	\$ 10,328,679	\$ 1,556,364	\$ 4,974,610	\$ 1,423,091	\$ 2,596,661	\$ 20,879,405
Total Liabilities and Fund Balances	\$ 11,493,616	\$ 12,797,610	\$ 5,363,461	\$ 4,251,521	\$ 2,686,869	\$ 36,593,077

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

Fund balances - total governmental funds (Exhibit 3)		\$	20,879,405
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			82,839,423
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			
Deferred revenue - unavailable			3,350,996
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.			
General obligation bonds - including issuance premium	\$	(756,713)	
Notes		(51,911)	
Loans payable		(128,797)	
Compensated absences (not reported in the funds)		(880,567)	
Deferred debt issuance charges		7,247	
		(1,810,741)	
Net Position of Governmental Activities (Exhibit 1)			<u>\$ 105,259,083</u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>	<u>Forfeited Tax Sale</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues						
Taxes	\$ 5,833,920	\$ 2,109,315	\$ 2,508,838	\$ -	\$ 458,113	\$ 10,910,186
Special assessments	-	-	-	-	1,513	1,513
Licenses and permits	323,939	-	-	-	575	324,514
Intergovernmental	3,009,482	7,805,407	3,166,254	281,251	325,363	14,587,757
Charges for services	1,065,043	281,235	217,939	40,179	-	1,604,396
Gifts and contributions	13,550	-	-	-	-	13,550
Investment earnings	353,411	-	-	-	14,670	368,081
Miscellaneous	488,916	222,644	456,840	1,299,889	4,287	2,472,576
Total Revenues	\$ 11,088,261	\$ 10,418,601	\$ 6,349,871	\$ 1,621,319	\$ 804,521	\$ 30,282,573
Expenditures						
Current						
General government	\$ 5,022,347	\$ -	\$ -	\$ 29,912	\$ 1,899	\$ 5,054,158
Public safety	6,610,839	-	-	-	20,749	6,631,588
Highways and streets	-	10,861,811	-	-	41,404	10,903,215
Sanitation	566,804	-	-	-	-	566,804
Human services	-	-	5,251,792	-	-	5,251,792
Health	9,453	-	658,965	-	-	668,418
Culture and recreation	865,575	-	-	-	-	865,575
Conservation of natural resources	197,866	-	-	1,001,058	657,314	1,856,238
Economic development	65,258	-	-	-	-	65,258
Intergovernmental						
Highways and streets	-	335,212	-	-	-	335,212
Debt service						
Principal	3,523	-	-	-	365,000	368,523
Interest	89	-	-	-	54,000	54,089
Total Expenditures	\$ 13,341,754	\$ 11,197,023	\$ 5,910,757	\$ 1,030,970	\$ 1,140,366	\$ 32,620,870
Excess of Revenues Over (Under) Expenditures	\$ (2,253,493)	\$ (778,422)	\$ 439,114	\$ 590,349	\$ (335,845)	\$ (2,338,297)
Other Financing Sources (Uses)						
Transfers in	\$ 225,211	\$ 1,510,000	\$ -	\$ -	\$ 260,122	\$ 1,995,333
Transfers out	(1,510,000)	-	-	(474,201)	(11,132)	(1,995,333)
Total Other Financing Sources (Uses)	\$ (1,284,789)	\$ 1,510,000	\$ -	\$ (474,201)	\$ 248,990	\$ -
Net Change in Fund Balance	\$ (3,538,282)	\$ 731,578	\$ 439,114	\$ 116,148	\$ (86,855)	\$ (2,338,297)
Fund Balance - January 1	13,866,961	755,261	4,535,496	1,306,943	2,683,516	23,148,177
Increase (decrease) in inventories	-	69,525	-	-	-	69,525
Fund Balance - December 31	\$ 10,328,679	\$ 1,556,364	\$ 4,974,610	\$ 1,423,091	\$ 2,596,661	\$ 20,879,405

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

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**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, 2012**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (2,338,297)

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.

Deferred revenue - December 31	\$ 3,350,996	
Deferred revenue - January 1	<u>(3,390,390)</u>	(39,394)

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 position differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 8,591,706	
Net book value of assets sold	(13,908)	
Current year depreciation	<u>(2,550,151)</u>	6,027,649

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 position. 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 position.

Principal repayments		
General obligation bonds	\$ 365,000	
Notes	<u>3,523</u>	368,523

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 compensated absences	\$ 90,893	
Amortization of deferred debt issuance costs	(3,625)	
Amortization of bond premiums	20,856	
Change in inventories	<u>69,525</u>	<u>177,649</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 4,408,574

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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 POSITION
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND
DECEMBER 31, 2012**

Assets

Current assets

Petty cash and change funds	\$	1,350
Accounts receivable - net		500
Due from other governments		19,917
Inventories		4,957
		<hr/>

Total current assets **\$ 26,724**

Restricted assets

Cash and pooled investments	\$	2,000
		<hr/>

Noncurrent assets

Capital assets		
Nondepreciable	\$	15,400
Depreciable - net		3,918,507
		<hr/>

Total noncurrent assets **\$ 3,933,907**

Total Assets **\$ 3,962,631**

Liabilities

Current liabilities

Accounts payable	\$	10,195
Salaries payable		14,573
Compensated absences payable - current		15,225
Due to other funds		366,371
Due to other governments		1,936
		<hr/>

Total Liabilities **\$ 408,300**

Net Position

Net investment in capital assets	\$	3,933,907
Restricted for		
Publications		2,000
Unrestricted		(381,576)
		<hr/>

Total Net Position **\$ 3,554,331**

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

Operating Revenues	
Program packages	\$ 536,160
Resale	35,570
Miscellaneous	24,651
	<hr/>
Total Operating Revenues	\$ 596,381
Operating Expenses	
Personal services	\$ 312,845
Employee benefits and payroll taxes	94,546
Other services and charges	60,060
Supplies	84,060
Utilities	45,988
Advertising	2,665
Insurance	20,682
Staff training	88
Postage	1,267
Depreciation	155,197
Resale	20,914
	<hr/>
Total Operating Expenses	\$ 798,312
Operating Income (Loss)	\$ (201,931)
Nonoperating Revenues (Expenses)	
Intergovernmental	\$ 4,569
Investment earnings	6
Gifts and contributions	7,587
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 12,162
Income (loss) before contributions	\$ (189,769)
Capital contributions	101,340
	<hr/>
Change in Net Position	\$ (88,429)
Net Position - January 1	3,642,760
	<hr/>
Net Position - December 31	\$ 3,554,331
	<hr/> <hr/>

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 576,438
Payments to suppliers	(233,847)
Payments to employees	(307,895)
Payments for fringe benefits and payroll taxes	<u>(93,376)</u>
Net cash provided by (used in) operating activities	<u>\$ (58,680)</u>
Cash Flows from Noncapital Financing Activities	
Intergovernmental	\$ 4,095
Contributions	7,587
Repayment of interfund payable	<u>(14,153)</u>
Net cash provided by (used in) noncapital financing activities	<u>\$ (2,471)</u>
Cash Flows from Capital and Related Financing Activities	
Capital contributions	\$ 202,209
Purchases of capital assets	<u>(141,064)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ 61,145</u>
Cash Flows from Investing Activities	
Interest	<u>\$ 6</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ -
Cash and Cash Equivalents at January 1	<u>3,350</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 3,350</u></u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012
Increase (Decrease) in Cash and Cash Equivalents**

Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	<u>\$ (201,931)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 155,197
(Increase) decrease in accounts receivable	(500)
(Increase) decrease in due from other governments	(19,443)
(Increase) decrease in inventories	(924)
Increase (decrease) in accounts payable	3,627
Increase (decrease) in salaries payable	6,623
Increase (decrease) in due to other governments	344
Increase (decrease) in compensated absences payable	<u>(1,673)</u>
Total adjustments	<u>\$ 143,251</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (58,680)</u>

FIDUCIARY FUNDS

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**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2012**

Assets

Cash and pooled investments	<u>\$ 883,091</u>
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Liabilities

Accounts payable	\$ 88,400
Due to other governments	<u>794,691</u>

Total Liabilities	<u>\$ 883,091</u>
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AITKIN COUNTY
AITKIN, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

AITKIN COUNTY
AITKIN, MINNESOTA

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net position, 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 position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

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

2. Fund Financial Statements

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

AITKIN COUNTY
AITKIN, MINNESOTA

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those 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, community social services, and public health programs.

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

The County reports the following major enterprise fund:

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

Additionally, the County reports the following fund types:

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Environmental Permanent Fund is used to account for funds collected from the sale of County-owned lakeshore leased lots. In accordance with 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 improvements of natural resources.

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

C. Measurement Focus and Basis of Accounting

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Assets, Liabilities, and Net Position 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, 2012, 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 2012 were \$353,411.

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). The investment in the pool is measured at the net asset value per share provided by the pool.

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position 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 nonspendable fund balance in applicable governmental funds to indicate they are not available for appropriation and are not expendable from available financial resources.

All receivables are shown net of an allowance for uncollectibles.

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

4. Inventories and Prepaid Items

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net position 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 had no capitalized interest.

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position 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 position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Classification of Net Position

Net position in government-wide statements is classified in the following categories:

Net investment in capital assets - the amount of net position representing capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law though constitutional provisions or enabling legislation.

Unrestricted net position - the amount of net position that do not meet the definition of restricted or net investment in capital assets.

11. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, such as fund balance associated with inventories, prepaids, or permanent funds.

Restricted - amounts that are restricted by external parties such as creditors or imposed by grants, law or legislation.

Committed - amounts that can be used only for the specific purposes determined by a formal action of Aitkin County's highest level of decision-making authority, which is the Aitkin County Board of Commissioners. Fund balance commitments are established, modified, or rescinded by County Board action through a Board resolution.

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net position or Equity

11. Classification of Fund Balances (Continued)

Assigned - amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount of fund balance that is not restricted or committed. When it is appropriate for fund balance to be assigned, the Board delegates this authority to the County Auditor.

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

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted, committed, and then assigned; unless the specific items have been identified in another classification.

The County has adopted a minimum fund balance policy for the General Fund. The County Board has determined it needs to maintain a minimum level of unassigned fund balance in the General Fund of 35 to 50 percent of the prior year's General Fund total operating expenditures. At December 31, 2012, the unassigned fund balance for the General Fund was below the minimum fund balance level.

12. 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.

**AITKIN COUNTY
AITKIN, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

Ditch Special Revenue Fund

Eight of 14 drainage systems of the Ditch Special Revenue Fund have incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund balance as of December 31, 2012:

Account balances	\$	57,307
Account deficits		(30,508)
Fund Balance	\$	26,799

B. Expenditures in Excess of Budget

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2012:

	Expenditures	Final Budget	Excess
General Fund	\$ 13,341,754	\$ 11,356,535	\$ 1,985,219
Special Revenue Funds			
Road and Bridge	11,197,023	11,114,966	82,057
Forest Development	647,368	622,917	24,451
Unorganized Road, Bridge, and Fire	64,052	62,365	1,687
Ditch	9,946	400	9,546
Jail Bond Debt Service Fund	419,000	412,750	6,250

**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 position	
Governmental activities	
Cash and pooled investments	\$ 30,200,500
Petty cash and change funds	6,000
Departmental cash	926
Cash with fiscal agent	145,929
Business-type activities	
Petty cash and change funds	1,350
Cash and pooled investments - restricted assets	2,000
Statement of fiduciary net position	
Cash and pooled investments	<u>883,091</u>
 Total Cash and Investments	 <u>\$ 31,239,796</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, 2012, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

Credit Risk

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's policy is that brokers may hold County investments only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available, with the exception of investments held within the MAGIC Fund. As of December 31, 2012, 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, 2012, 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	\$ 3,639
Federal Home Loan Mortgage Corporation Bond	N/R	N/A		04/01/2017	\$ 143
Federal Home Loan Mortgage Corporation Bond	AAA	S&P		01/18/2019	750,015
Federal Home Loan Mortgage Corporation Bond	AAA	S&P		02/15/2019	1,001,630
Federal Home Loan Mortgage Corporation Bond	AAA	S&P		03/21/2019	1,002,960
Total Federal Home Loan Mortgage Corporation Bonds			10.71%		\$ 2,754,748

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
Federal Home Loan Bank Bonds	AAA	S&P		09/27/2019	\$ 1,200,312
Federal Home Loan Bank Bonds	AAA	S&P		10/03/2019	2,000,480
Federal Home Loan Bank Bonds	AAA	S&P		10/11/2019	2,000,560
Federal Home Loan Bank Bonds	AAA	S&P		10/15/2019	249,443
Total Federal Home Loan Bank Bonds			21.20%		\$ 5,450,795
Federal Home Loan Bank Note	AA+	S&P	10.89%	03/09/2018	\$ 2,799,695
Federal National Mortgage Association	AAA	S&P		02/08/2019	\$ 1,502,055
Federal National Mortgage Association	AAA	S&P		07/24/2019	2,217,636
Federal National Mortgage Association	AAA	S&P		08/28/2019	2,253,578
Federal National Mortgage Association	AAA	S&P		10/04/2019	1,002,660
Total Federal National Mortgage Association			27.13%		\$ 6,975,929
Investment pools/mutual funds					
Wells Fargo - Advantage Prime Fund	AAA	S&P	N/A	N/A	\$ 20,708
MAGIC Fund	N/R	N/A	N/A	N/A	7,707,480
Total investment pools/mutual funds					\$ 7,728,188
Total investments					\$ 25,712,994
Deposits					4,372,597
Money market					1,000,000
Petty cash and change funds					7,350
Departmental cash					926
Cash with fiscal agent					145,929
Total Cash and Investments					\$ 31,239,796

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, 2012, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 562,217	\$ -
Special assessments	17,099	15,274
Accounts	2,127,188	-
Accrued interest	105,063	-
Loans	102,810	93,631
Due from other governments	2,065,112	-
Deposits	25,000	25,000
Total Governmental Activities	\$ 5,004,489	\$ 133,905

An allowance for uncollectible receivables related to timber sales is included in the above figures. The allowance at December 31, 2012, is \$183,318.

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 2,632,509	\$ 121,028	\$ -	\$ 2,753,537
Construction in progress	369,759	2,177,551	197,027	2,350,283
Total capital assets not depreciated	\$ 3,002,268	\$ 2,298,579	\$ 197,027	\$ 5,103,820
Capital assets depreciated				
Buildings	\$ 14,886,086	\$ 182,716	\$ -	\$ 15,068,802
Machinery, furniture, and equipment	9,227,183	760,632	357,017	9,630,798
Infrastructure	81,037,384	5,546,806	-	86,584,190
Total capital assets depreciated	\$ 105,150,653	\$ 6,490,154	\$ 357,017	\$ 111,283,790

**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	\$ 6,338,456	\$ 372,963	\$ -	\$ 6,711,419
Machinery, furniture, and equipment	6,895,901	500,574	343,109	7,053,366
Infrastructure	18,106,788	1,676,614	-	19,783,402
Total accumulated depreciation	\$ 31,341,145	\$ 2,550,151	\$ 343,109	\$ 33,548,187
Total capital assets depreciated, net	\$ 73,809,508	\$ 3,940,003	\$ 13,908	\$ 77,735,603
Governmental Activities Capital Assets, Net	\$ 76,811,776	\$ 6,238,582	\$ 210,935	\$ 82,839,423

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 15,400	\$ -	\$ -	\$ 15,400
Construction in progress	95,028	101,342	196,370	-
Total capital assets not depreciated	\$ 110,428	\$ 101,342	\$ 196,370	\$ 15,400
Capital assets depreciated				
Buildings	\$ 6,003,861	\$ 196,370	\$ -	\$ 6,200,231
Machinery, furniture, and equipment	156,519	9,081	14,868	150,732
Total capital assets depreciated	\$ 6,160,380	\$ 205,451	\$ 14,868	\$ 6,350,963
Less: accumulated depreciation for				
Buildings	\$ 2,155,596	\$ 150,172	\$ -	\$ 2,305,768
Machinery, furniture, and equipment	136,531	5,025	14,868	126,688
Total accumulated depreciation	\$ 2,292,127	\$ 155,197	\$ 14,868	\$ 2,432,456
Total capital assets depreciated, net	\$ 3,868,253	\$ 50,254	\$ -	\$ 3,918,507
Business-Type Activities Capital Assets, Net	\$ 3,978,681	\$ 151,596	\$ 196,370	\$ 3,933,907

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	220,450
Public safety		242,824
Highways and streets, including depreciation of infrastructure assets		1,978,019
Health and human services		30,953
Sanitation		7,057
Culture and recreation		3,485
Conservation of natural resources		67,363
Total Depreciation Expense - Governmental Activities	\$	2,550,151
Business-Type Activities		
Long Lake Conservation Center	\$	155,197

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2012, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Health and Human Services	\$ 7,332	Services provided
	Forfeited Tax Sale	214,079	Forfeited tax sale apportionment
	Long Lake Conservation Center	366,371	Fund deficit cash balance
Total Due to General Fund		\$ 587,782	
Road and Bridge Fund	Nonmajor governmental funds	34,463	Services provided
Nonmajor governmental funds	Forfeited Tax Sale	260,122	Forfeited tax sale apportionment
Total Due To/From Other Funds		\$ 882,367	

**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, 2012, consisted of the following:

Transfers to General Fund from Forfeited Tax Sale Fund	\$ 214,079	Forfeited tax sale apportionment
Nonmajor governmental funds	<u>11,132</u>	Pay back LLCC interest
Total transferred to General Fund	\$ 225,211	
Transfers to Road and Bridge Fund from General Fund	1,510,000	Cover local share of a road project
Transfer to nonmajor governmental funds from Forfeited Tax Sale Fund	<u>260,122</u>	Forfeited tax sale apportionment
Total Interfund Transfers	<u>\$ 1,995,333</u>	

C. Liabilities

1. Long-Term Debt

Governmental Activities

<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, 2012</u>
2005 General Obligation Jail Refunding Bonds	2014	\$260,000 - \$335,000	5.00	\$ 2,920,000	\$ 715,000
1999B General Obligation Revenue Notes	2014	\$50,000	0.00	<u>50,000</u>	<u>50,123</u>
Total General Obligation Bonds and Notes				<u>\$ 2,970,000</u>	<u>\$ 765,123</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, 2012</u>
2000 Clean Water Partnership Project Notes	2013	\$3,386	2.00	\$ 32,450	\$ 1,788
1999 Minnesota Department of Agriculture Loans	2019	\$73,930	0.00	\$ 73,930	\$ 73,930
2001 Minnesota Department of Agriculture Loans	2018	\$54,867	0.00	54,867	54,867
Total Minnesota Department of Agriculture Loans				\$ 128,797	\$ 128,797

2. Debt Service Requirements

Debt service requirements at December 31, 2012, were as follows:

Governmental Activities

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>		<u>General Obligation Revenue Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 380,000	\$ 35,750	\$ -	\$ -
2014	335,000	16,750	50,123	-
2015	-	-	-	-
2016	-	-	-	-
2017	-	-	-	-
2018 - 2019	-	-	-	-
Totals	\$ 715,000	\$ 52,500	\$ 50,123	\$ -

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Debt Service Requirements (Continued)

Year Ending December 31	Clean Water Partnership Project Notes of 2000		Minnesota Department of Agriculture Loans of 1999	
	Principal	Interest	Principal	Interest
2013	\$ 1,788	\$ 18	\$ -	\$ -
2014	-	-	-	-
2015	-	-	-	-
2016	-	-	-	-
2017	-	-	-	-
2018 - 2019	-	-	73,930	-
Totals	\$ 1,788	\$ 18	\$ 73,930	\$ -

Year Ending December 31	Minnesota Department of Agriculture Loans of 2001		Total	
	Principal	Interest	Principal	Interest
2013	\$ -	\$ -	\$ 381,788	\$ 35,768
2014	-	-	385,123	16,750
2015	-	-	-	-
2016	-	-	-	-
2017	-	-	-	-
2018 - 2019	54,867	-	128,797	-
Totals	\$ 54,867	\$ -	\$ 895,708	\$ 53,518

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and notes payable					
Bonds	\$ 1,080,000	\$ -	\$ 365,000	\$ 715,000	\$ 380,000
Bond premium	62,569	-	20,856	41,713	-
G.O. revenue notes	50,123	-	-	50,123	-
Total bonds and notes payable	\$ 1,192,692	\$ -	\$ 385,856	\$ 806,836	\$ 380,000

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Changes in Long-Term Liabilities

Governmental Activities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Clear Water Partnership Project Notes of 2000	\$ 5,311	\$ -	\$ 3,523	\$ 1,788	\$ 1,788
Minnesota Department of Agriculture Loans of 1999	73,930	-	-	73,930	-
Minnesota Department of Agriculture Loans of 2001	54,867	-	-	54,867	-
Compensated absences	971,460	981,063	1,071,956	880,567	722,543
 Governmental Activities Long-Term Liabilities	 \$ 2,298,260	 \$ 981,063	 \$ 1,461,335	 \$ 1,817,988	 \$ 1,104,331

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 16,898	\$ 25,657	\$ 27,330	\$ 15,225	\$ 15,225

4. Construction Commitments

The County has active construction projects as of December 31, 2012. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities Roads and bridges	\$ 10,315,803	\$ 944,352

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2012:

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

The County's contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
General Employees Retirement Fund	\$ 594,963	\$ 594,687	\$ 571,551
Public Employees Police and Fire Fund	154,652	160,042	160,615
Public Employees Correctional Fund	107,845	99,739	95,804

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans (Continued)

B. Defined Contribution Plan

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

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2012, were:

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

Required contribution rates were 5.00 percent.

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers'

**AITKIN COUNTY
AITKIN, MINNESOTA**

5. Risk Management (Continued)

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 \$460,000 per claim in 2012 and \$470,000 per claim in 2013. 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. The outcome of these lawsuits is not presently determinable as we were unable to obtain a discussion or evaluation from the County Attorney of any litigation, claims, assessments, and unasserted claims or an estimate of the financial implications involved. We were therefore unable to determine whether any adjustments to the financial statements of the governmental activities or business-type activities were necessary.

**AITKIN COUNTY
AITKIN, MINNESOTA**

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

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.

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

Separate financial information can be obtained from:

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

Northern Counties Land Use Coordinating Board

The Northern Counties Land Use Coordinating 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, Pennington, Roseau, and St. Louis Counties. Three elected County Commissioners from St. Louis County and two from each of the other counties comprise 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 provided no funding to this organization during 2012.

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northern Counties Land Use Coordinating Board (Continued)

Separate financial information can be obtained from:

Northern Counties Land Use Coordinating Board
St. Louis County Courthouse
100 North 5th Avenue West, #214
Duluth, Minnesota 55802

Joint County Natural Resources Board

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

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

In the event of dissolution of the Joint County Natural Resources Board, the net position of the Joint County Natural Resources Board at that time shall be distributed to the respective member counties in proportion to the contribution of each. Aitkin County contributed \$1,000 during 2012 to the Joint County Natural Resources Board.

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Joint County Natural Resources Board (Continued)

Complete financial information can be obtained from:

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

Aitkin-Itasca-Koochiching Community Health Services Board

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

The Community Health Services Board is composed of two members from Aitkin and Koochiching Counties and three members from Itasca County, each appointed by the participating counties. Itasca County maintains the accounting records of the Community Health Services Board. Funding is obtained through federal, state, local, and private sources. Aitkin County provided no funding to this organization during 2012.

Complete financial information can be obtained from:

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

**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 2012.

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 no funding to this organization during 2012. 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

B. Joint Ventures (Continued)

Central Minnesota Community Corrections Agency

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

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

The Central Minnesota Community Agency is funded through state grants and contributions from Aitkin, Crow Wing, and Morrison Counties. Aitkin County appropriated \$140,319 to the Agency in 2012.

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

Complete financial information can be obtained from:

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

East Central Regional Library

The East Central Regional Library was established by a joint powers agreement among Aitkin, Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to provide an efficient and improved regional public library service. The Library Board comprises 18 members—one County Board member and two appointees from each member county. Aitkin County's contribution for 2012 was \$224,645.

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

East Central Regional Library (Continued)

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

East Central Regional Library
244 South Birch
Cambridge, Minnesota 55008

North Central Drug Task Force

Mille Lacs County, Aitkin County, Kanabec County, and the Mille Lacs Band of Ojibwe entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of developing and implementing a group of local law enforcement officers, which shall be available to assist any of the parties in the investigation of major drug and gang crimes within the three-county area and tribal lands. The governing board consists of the Sheriff of each member county, the police chief of the Mille Lacs Tribal Police, and the County Attorney of the host agency.

At least annually, in January, each law enforcement member county shall contribute an additional \$1,500, or its proportionate share thereof, to maintain the fund at \$6,000 per calendar year. In addition to the yearly \$1,500, each participating law enforcement agency will contribute towards a matching grant fund, not to exceed \$6,000.

Northeast Minnesota Regional Radio Board

The Northeast Minnesota Regional Radio Board was established through a joint powers agreement, pursuant to Minn. Stat. §§ 471.59 and 403.39, to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) and to enhance and improve interoperable public safety communications.

The joint powers are the Counties of Aitkin, Carlton, Cass, Cook, Crow Wing, Itasca, Kanabec, Koochiching, Lake, Pine, and St. Louis and the Cities of Duluth, Hibbing, International Falls, and Virginia. Control of the Northeast Minnesota Regional Radio Board is vested in a Board of Directors composed of one county commissioner from

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northeast Minnesota Regional Radio Board (Continued)

each of the member counties and one city council member from each of the member cities. In addition, there is one member from the Northeast Minnesota Regional Advisory Committee, one member from the Northeast Minnesota Regional Radio System User Committee, and one member from the Northeast Minnesota Owners and Operators Committee who are also voting members of the board.

Itasca County is the fiscal agent for the Northeast Minnesota Regional Radio Board. Funding is provided by grants and contributions from participating members. Aitkin County contributed no funding in 2012.

C. Jointly-Governed Organizations

Aitkin County Family Services Collaborative

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

Aitkin Municipal Airport Commission

The Aitkin Municipal Airport Commission is authorized by Minn. Stat. ch. 360. The Airport Commission is governed by a five-member Board of Directors--three members are appointed by the Aitkin County Board, and two are appointed by the City of Aitkin. The proprietary interest in the Airport Commission's assets is divided two-thirds to Aitkin County and one-third to the City of Aitkin as per the contractual agreement. All cash of the Airport Commission is on deposit with the City of Aitkin at December 31, 2012. The City of Aitkin has opted to report the activities of the Aitkin Municipal Airport Commission as a discrete component unit in its annual financial report.

AITKIN COUNTY
AITKIN, MINNESOTA

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

D. Related Organization

Aitkin County Housing and Redevelopment Authority

The Aitkin County Housing and Redevelopment Authority (HRA) is a separate legal entity as authorized under Minn. Stat. ch. 469. The HRA operates a low-income housing program and elderly housing in the County. The HRA Board is appointed by the County Board. The County does not provide funding, has no obligation for the debt of the HRA, and cannot impose its will on the HRA.

E. Minnesota Community Capital Fund

The County is a Class C 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 flexibility and the capacity to originate multiple loans that are much larger than would be possible with limited local resources. The \$25,000 member participation is included as a long-term receivable in the General Fund.

E. Tax-Forfeited Land

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

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REQUIRED SUPPLEMENTARY INFORMATION

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**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 5,822,040	\$ 5,822,040	\$ 5,833,920	\$ 11,880
Licenses and permits	304,330	304,330	323,939	19,609
Intergovernmental	2,073,938	2,073,938	3,009,482	935,544
Charges for services	1,016,010	1,016,010	1,065,043	49,033
Gifts and contributions	3,200	3,200	13,550	10,350
Investment earnings	500,000	500,000	353,411	(146,589)
Miscellaneous	349,753	349,753	488,916	139,163
Total Revenues	\$ 10,069,271	\$ 10,069,271	\$ 11,088,261	\$ 1,018,990
Expenditures				
Current				
General government				
Commissioners	\$ 229,108	\$ 229,108	\$ 230,860	\$ (1,752)
Courts	100,000	100,000	66,585	33,415
County administration	317,936	317,936	326,025	(8,089)
County auditor	461,973	461,973	478,877	(16,904)
Motor vehicle	157,788	157,788	149,220	8,568
County treasurer	219,794	219,794	216,495	3,299
County assessor	755,914	755,914	796,170	(40,256)
Elections	138,678	138,678	101,742	36,936
Data processing	509,495	509,495	435,265	74,230
Central services	226,981	226,981	211,469	15,512
Attorney	844,480	844,480	830,808	13,672
Recorder	223,619	223,619	247,176	(23,557)
Planning and zoning	364,077	364,077	358,102	5,975
Buildings and plant	65,000	65,000	131,750	(66,750)
Maintenance	340,992	340,992	332,783	8,209
Veterans service officer	80,641	80,641	82,415	(1,774)
Motor pool	28,571	28,571	24,645	3,926
Housing and development	1,500	1,500	1,960	(460)
Total general government	\$ 5,066,547	\$ 5,066,547	\$ 5,022,347	\$ 44,200

**AITKIN COUNTY
AITKIN, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<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	\$ 1,991,237	\$ 1,991,237	\$ 1,871,516	\$ 119,721
800 MHz (ARMER) radio system	-	-	1,760,558	(1,760,558)
Boat and water safety	74,511	74,511	118,745	(44,234)
Snowmobile	30,636	30,636	31,026	(390)
Coroner	50,000	50,000	35,577	14,423
E-911 system	42,200	42,200	10,071	32,129
Community corrections	2,509,637	2,509,637	2,582,933	(73,296)
Crime victim	59,805	59,805	60,481	(676)
Civil defense	58,054	58,054	53,626	4,428
Other public safety	25,528	25,528	86,306	(60,778)
Total public safety	\$ 4,841,608	\$ 4,841,608	\$ 6,610,839	\$ (1,769,231)
Sanitation				
Solid waste	\$ 243,296	\$ 243,296	\$ 501,661	\$ (258,365)
Environmental health	74,897	74,897	65,143	9,754
Total sanitation	\$ 318,193	\$ 318,193	\$ 566,804	\$ (248,611)
Health				
Water wells	\$ 5,745	\$ 5,745	\$ 9,453	\$ (3,708)
Culture and recreation				
Historical society	\$ 17,555	\$ 17,555	\$ 17,895	\$ (340)
Parks	549,638	549,638	605,352	(55,714)
Regional library	229,337	229,337	225,380	3,957
Tourism	21,300	21,300	16,948	4,352
Total culture and recreation	\$ 817,830	\$ 817,830	\$ 865,575	\$ (47,745)
Conservation of natural resources				
Cooperative extension	\$ 70,888	\$ 70,888	\$ 65,914	\$ 4,974
Soil and water conservation	108,113	108,113	108,113	-
Agricultural inspections	4,800	4,800	9,600	(4,800)
Agricultural society/County fair	15,075	15,075	14,239	836
Total conservation of natural resources	\$ 198,876	\$ 198,876	\$ 197,866	\$ 1,010

**AITKIN COUNTY
AITKIN, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<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	\$ 415	\$ 415	\$ 488	\$ (73)
Airports	21,007	21,007	21,007	-
Other	86,314	86,314	43,763	42,551
Total economic development	\$ 107,736	\$ 107,736	\$ 65,258	\$ 42,478
Debt service				
Principal	-	-	3,523	(3,523)
Interest	-	-	89	(89)
Total debt service	\$ -	\$ -	\$ 3,612	\$ (3,612)
Total Expenditures	\$ 11,356,535	\$ 11,356,535	\$ 13,341,754	\$ (1,985,219)
Excess of Revenues Over (Under)				
Expenditures	\$ (1,287,264)	\$ (1,287,264)	\$ (2,253,493)	\$ (966,229)
Other Financing Sources (Uses)				
Transfers in	424,000	424,000	225,211	(198,789)
Transfers out	-	-	(1,510,000)	(1,510,000)
Total Other Financing Sources (Uses)	\$ 424,000	\$ 424,000	\$ (1,284,789)	\$ (1,708,789)
Net Change in Fund Balance	\$ (863,264)	\$ (863,264)	\$ (3,538,282)	\$ (2,675,018)
Fund Balance - January 1	13,866,961	13,866,961	13,866,961	-
Fund Balance - December 31	\$ 13,003,697	\$ 13,003,697	\$ 10,328,679	\$ (2,675,018)

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,133,504	\$ 2,133,504	\$ 2,109,315	\$ (24,189)
Intergovernmental	6,109,182	6,109,182	7,805,407	1,696,225
Charges for services	2,010,700	2,010,700	281,235	(1,729,465)
Miscellaneous	47,000	47,000	222,644	175,644
Total Revenues	\$ 10,300,386	\$ 10,300,386	\$ 10,418,601	\$ 118,215
Expenditures				
Current				
Highways and streets				
Administration	\$ 460,570	\$ 460,570	\$ 443,781	\$ 16,789
Engineering	491,496	491,496	522,177	(30,681)
Maintenance	2,725,050	2,725,050	2,790,430	(65,380)
Construction	7,075,600	7,075,600	6,424,344	651,256
Equipment and maintenance shops	362,250	362,250	681,079	(318,829)
Total highways and streets	\$ 11,114,966	\$ 11,114,966	\$ 10,861,811	\$ 253,155
Intergovernmental				
Highways and streets	-	-	335,212	(335,212)
Total Expenditures	\$ 11,114,966	\$ 11,114,966	\$ 11,197,023	\$ (82,057)
Excess of Revenues Over (Under) Expenditures	\$ (814,580)	\$ (814,580)	\$ (778,422)	\$ 36,158
Other Financing Sources (Uses)				
Transfers in	-	-	1,510,000	1,510,000
Net Change in Fund Balance	\$ (814,580)	\$ (814,580)	\$ 731,578	\$ 1,546,158
Fund Balance - January 1	755,261	755,261	755,261	-
Increase (decrease) in inventories	-	-	69,525	69,525
Fund Balance - December 31	\$ (59,319)	\$ (59,319)	\$ 1,556,364	\$ 1,615,683

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
HEALTH AND HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,534,728	\$ 2,534,728	\$ 2,508,838	\$ (25,890)
Intergovernmental	2,919,172	2,919,172	3,166,254	247,082
Charges for services	180,700	180,700	217,939	37,239
Miscellaneous	392,849	392,849	456,840	63,991
Total Revenues	\$ 6,027,449	\$ 6,027,449	\$ 6,349,871	\$ 322,422
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,522,812	\$ 1,522,812	\$ 1,724,206	\$ (201,394)
Social services	3,830,316	3,830,316	3,527,586	302,730
Total human services	\$ 5,353,128	\$ 5,353,128	\$ 5,251,792	\$ 101,336
Health				
Women, infants, and children	\$ 2,567	\$ 2,567	\$ 2,526	\$ 41
Nursing service	31,450	31,450	11,011	20,439
Transportation	52,000	52,000	34,815	17,185
Maternal and child health	14,914	14,914	9,631	5,283
Miscellaneous	573,390	573,390	600,982	(27,592)
Total health	\$ 674,321	\$ 674,321	\$ 658,965	\$ 15,356
Total Expenditures	\$ 6,027,449	\$ 6,027,449	\$ 5,910,757	\$ 116,692
Net Change in Fund Balance	\$ -	\$ -	\$ 439,114	\$ 439,114
Fund Balance - January 1	4,535,496	4,535,496	4,535,496	-
Fund Balance - December 31	\$ 4,535,496	\$ 4,535,496	\$ 4,974,610	\$ 439,114

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
FORFEITED TAX SALE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 290,000	\$ 290,000	\$ 281,251	\$ (8,749)
Charges for services	30,000	30,000	40,179	10,179
Miscellaneous	1,409,000	1,409,000	1,299,889	(109,111)
Total Revenues	\$ 1,729,000	\$ 1,729,000	\$ 1,621,319	\$ (107,681)
Expenditures				
Current				
General government				
Law library	\$ 30,000	\$ 30,000	\$ 29,912	\$ 88
Other general government	1,000	1,000	-	1,000
Total general government	\$ 31,000	\$ 31,000	\$ 29,912	\$ 1,088
Conservation of natural resources				
County development	\$ 447,564	\$ 447,564	\$ 247,510	\$ 200,054
Forfeited tax	1,381,000	1,381,000	753,548	627,452
Total conservation of natural resources	\$ 1,828,564	\$ 1,828,564	\$ 1,001,058	\$ 827,506
Total Expenditures	\$ 1,859,564	\$ 1,859,564	\$ 1,030,970	\$ 828,594
Excess of Revenues Over (Under) Expenditures	\$ (130,564)	\$ (130,564)	\$ 590,349	\$ 720,913
Other Financing Sources (Uses)				
Transfers out	(65,000)	(65,000)	(474,201)	(409,201)
Net Change in Fund Balance	\$ (195,564)	\$ (195,564)	\$ 116,148	\$ 311,712
Fund Balance - January 1	1,306,943	1,306,943	1,306,943	-
Fund Balance - December 31	\$ 1,111,379	\$ 1,111,379	\$ 1,423,091	\$ 311,712

**AITKIN COUNTY
AITKIN, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012**

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.

2. Excess of Expenditures Over Appropriations

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2012. These expenditures in excess of appropriations will be funded by future tax levies, state aid highway allotments, and the use of fund balance.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 13,341,754	\$ 11,356,535	\$ 1,985,219
Road and Bridge Special Revenue Fund	11,197,023	11,114,966	82,057

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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 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, 2012**

	Special Revenue Funds		
	Forest Development	Unorganized Road, Bridge, and Fire	Ditch
<u>Assets</u>			
Cash and pooled investments	\$ 1,105,444	\$ 490,784	\$ 47,070
Taxes receivable			
Prior	-	2,104	-
Special assessments receivable			
Prior	-	-	1,825
Noncurrent	-	-	15,274
Due from other funds	246,746	13,376	-
Due from other governments	33,819	-	-
	<hr/>	<hr/>	<hr/>
Total Assets	\$ 1,386,009	\$ 506,264	\$ 64,169
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 6,928	\$ 193	\$ 200
Salaries payable	10,408	-	-
Due to other funds	-	14,392	20,071
Due to other governments	859	6	-
Deferred revenue - unavailable	-	1,746	17,099
	<hr/>	<hr/>	<hr/>
Total Liabilities	\$ 18,195	\$ 16,337	\$ 37,370
Fund Balances			
Restricted for			
Debt service	\$ -	\$ -	\$ -
Unorganized road, bridge, and fire	-	489,927	-
Ditch maintenance and repairs	-	-	57,307
Environmental uses	-	-	-
Assigned for			
Forest development	1,367,814	-	-
Unassigned	-	-	(30,508)
	<hr/>	<hr/>	<hr/>
Total Fund Balances	\$ 1,367,814	\$ 489,927	\$ 26,799
	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	\$ 1,386,009	\$ 506,264	\$ 64,169

EXHIBIT B-1

<u>Total</u>	<u>Debt Service Fund Jail Bond</u>	<u>Permanent Fund Environmental</u>	<u>Total Nonmajor Governmental Funds (Exhibit 3)</u>
\$ 1,643,298	\$ 221,976	\$ 487,272	\$ 2,352,546
2,104	21,179	-	23,283
1,825	-	-	1,825
15,274	-	-	15,274
260,122	-	-	260,122
33,819	-	-	33,819
\$ 1,956,442	\$ 243,155	\$ 487,272	\$ 2,686,869
\$ 7,321	\$ -	\$ -	\$ 7,321
10,408	-	-	10,408
34,463	-	-	34,463
865	-	-	865
18,845	18,306	-	37,151
\$ 71,902	\$ 18,306	\$ -	\$ 90,208
\$ -	\$ 224,849	\$ -	\$ 224,849
489,927	-	-	489,927
57,307	-	-	57,307
-	-	487,272	487,272
1,367,814	-	-	1,367,814
(30,508)	-	-	(30,508)
\$ 1,884,540	\$ 224,849	\$ 487,272	\$ 2,596,661
\$ 1,956,442	\$ 243,155	\$ 487,272	\$ 2,686,869

**AITKIN COUNTY
AITKIN, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Forest Development</u>	<u>Unorganized Road, Bridge, and Fire</u>
Revenues		
Taxes	\$ -	\$ 59,607
Special assessments	-	-
Licenses and permits	575	-
Intergovernmental	256,086	27,155
Investment earnings	-	-
Miscellaneous	4,267	20
Total Revenues	\$ 260,928	\$ 86,782
Expenditures		
Current		
General government	\$ -	\$ 1,899
Public safety	-	20,749
Highways and streets	-	41,404
Conservation of natural resources	647,368	-
Debt service		
Principal	-	-
Interest	-	-
Total Expenditures	\$ 647,368	\$ 64,052
Excess of Revenues Over (Under)		
Expenditures	\$ (386,440)	\$ 22,730
Other Financing Sources (Uses)		
Transfers in	\$ 246,746	\$ 13,376
Transfers out	-	-
Total Other Financing Sources (Uses)	\$ 246,746	\$ 13,376
Net Change in Fund Balance	\$ (139,694)	\$ 36,106
Fund Balance - January 1	1,507,508	453,821
Fund Balance - December 31	\$ 1,367,814	\$ 489,927

EXHIBIT B-2

Special Revenue Funds		Debt Service Fund Jail Bond	Permanent Fund Environmental	Total Nonmajor Governmental Funds (Exhibit 5)
Ditch	Total			
\$ -	\$ 59,607	\$ 398,506	\$ -	\$ 458,113
1,513	1,513	-	-	1,513
-	575	-	-	575
-	283,241	42,122	-	325,363
33	33	-	14,637	14,670
-	4,287	-	-	4,287
\$ 1,546	\$ 349,256	\$ 440,628	\$ 14,637	\$ 804,521
\$ -	\$ 1,899	\$ -	\$ -	\$ 1,899
-	20,749	-	-	20,749
-	41,404	-	-	41,404
9,946	657,314	-	-	657,314
-	-	365,000	-	365,000
-	-	54,000	-	54,000
\$ 9,946	\$ 721,366	\$ 419,000	\$ -	\$ 1,140,366
\$ (8,400)	\$ (372,110)	\$ 21,628	\$ 14,637	\$ (335,845)
\$ -	\$ 260,122	\$ -	\$ -	\$ 260,122
-	-	-	(11,132)	(11,132)
\$ -	\$ 260,122	\$ -	\$ (11,132)	\$ 248,990
\$ (8,400)	\$ (111,988)	\$ 21,628	\$ 3,505	\$ (86,855)
35,199	1,996,528	203,221	483,767	2,683,516
\$ 26,799	\$ 1,884,540	\$ 224,849	\$ 487,272	\$ 2,596,661

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
FOREST DEVELOPMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 3,000	\$ 3,000	\$ 575	\$ (2,425)
Intergovernmental	296,000	296,000	256,086	(39,914)
Miscellaneous	4,000	4,000	4,267	267
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 303,000	\$ 303,000	\$ 260,928	\$ (42,072)
Expenditures				
Current				
Conservation of natural resources				
Forest resource	\$ 125,709	\$ 125,709	\$ 148,636	\$ (22,927)
Reforestation	338,258	338,258	402,093	(63,835)
Memorial forest	115,000	115,000	38,781	76,219
Forest road	43,950	43,950	57,858	(13,908)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	\$ 622,917	\$ 622,917	\$ 647,368	\$ (24,451)
Excess of Revenues Over (Under) Expenditures	\$ (319,917)	\$ (319,917)	\$ (386,440)	\$ (66,523)
Other Financing Sources (Uses)				
Transfers in	290,000	290,000	246,746	(43,254)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Change in Fund Balance	\$ (29,917)	\$ (29,917)	\$ (139,694)	\$ (109,777)
Fund Balance - January 1	1,507,508	1,507,508	1,507,508	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31	\$ 1,477,591	\$ 1,477,591	\$ 1,367,814	\$ (109,777)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT B-4

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
UNORGANIZED ROAD, BRIDGE, AND FIRE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 62,365	\$ 62,365	\$ 59,607	\$ (2,758)
Intergovernmental	-	-	27,155	27,155
Miscellaneous	-	-	20	20
Total Revenues	\$ 62,365	\$ 62,365	\$ 86,782	\$ 24,417
Expenditures				
Current				
General government				
Other general government	\$ 1,740	\$ 1,740	\$ 1,899	\$ (159)
Public safety				
Emergency services	19,625	19,625	20,749	(1,124)
Highways and streets				
Other highways and streets	41,000	41,000	41,404	(404)
Total Expenditures	\$ 62,365	\$ 62,365	\$ 64,052	\$ (1,687)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 22,730	\$ 22,730
Other Financing Sources (Uses)				
Transfers in	-	-	13,376	13,376
Net Change in Fund Balance	\$ -	\$ -	\$ 36,106	\$ 36,106
Fund Balance - January 1	453,821	453,821	453,821	-
Fund Balance - December 31	\$ 453,821	\$ 453,821	\$ 489,927	\$ 36,106

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT B-5

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 1,518	\$ 1,518	\$ 1,513	\$ (5)
Investment earnings	50	50	33	(17)
Total Revenues	\$ 1,568	\$ 1,568	\$ 1,546	\$ (22)
Expenditures				
Current				
Conservation of natural resources				
Other	400	400	9,946	(9,546)
Excess of Revenues Over (Under) Expenditures	\$ 1,168	\$ 1,168	\$ (8,400)	\$ (9,568)
Other Financing Sources (Uses)				
Transfers in	32,416	32,416	-	(32,416)
Net Change in Fund Balance	\$ 33,584	\$ 33,584	\$ (8,400)	\$ (41,984)
Fund Balance - January 1	35,199	35,199	35,199	-
Fund Balance - December 31	\$ 68,783	\$ 68,783	\$ 26,799	\$ (41,984)

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT B-6

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
JAIL BOND DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 402,701	\$ 402,701	\$ 398,506	\$ (4,195)
Intergovernmental	33,837	33,837	42,122	8,285
Total Revenues	\$ 436,538	\$ 436,538	\$ 440,628	\$ 4,090
Expenditures				
Debt service				
Principal	\$ 350,000	\$ 350,000	\$ 365,000	\$ (15,000)
Interest	62,750	62,750	54,000	8,750
Total Expenditures	\$ 412,750	\$ 412,750	\$ 419,000	\$ (6,250)
Net Change in Fund Balance	\$ 23,788	\$ 23,788	\$ 21,628	\$ (2,160)
Fund Balance - January 1	203,221	203,221	203,221	-
Fund Balance - December 31	\$ 227,009	\$ 227,009	\$ 224,849	\$ (2,160)

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT B-7

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
ENVIRONMENTAL PERMANENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment earnings	\$ 10,000	\$ 10,000	\$ 14,637	\$ 4,637
Other Financing Sources (Uses)				
Transfers out	<u>(10,000)</u>	<u>(10,000)</u>	<u>(11,132)</u>	<u>(1,132)</u>
Net Change in Fund Balance	\$ -	\$ -	\$ 3,505	\$ 3,505
Fund Balance - January 1	<u>483,767</u>	<u>483,767</u>	<u>483,767</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 483,767</u></u>	<u><u>\$ 483,767</u></u>	<u><u>\$ 487,272</u></u>	<u><u>\$ 3,505</u></u>

FIDUCIARY FUNDS

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**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>547,195</u>	\$ <u>9,499,915</u>	\$ <u>9,444,110</u>	\$ <u>603,000</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>547,195</u>	\$ <u>9,499,915</u>	\$ <u>9,444,110</u>	\$ <u>603,000</u>
 <u>COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>103,870</u>	\$ <u>67,380</u>	\$ <u>82,850</u>	\$ <u>88,400</u>
<u>Liabilities</u>				
Accounts payable	\$ <u>103,870</u>	\$ <u>67,380</u>	\$ <u>82,850</u>	\$ <u>88,400</u>
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>125,917</u>	\$ <u>3,440,280</u>	\$ <u>3,374,506</u>	\$ <u>191,691</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>125,917</u>	\$ <u>3,440,280</u>	\$ <u>3,374,506</u>	\$ <u>191,691</u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>760</u>	\$ <u>24,954,581</u>	\$ <u>24,955,341</u>	\$ <u>-</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>760</u>	\$ <u>24,954,581</u>	\$ <u>24,955,341</u>	\$ <u>-</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>777,742</u>	\$ <u>37,962,156</u>	\$ <u>37,856,807</u>	\$ <u>883,091</u>
<u>Liabilities</u>				
Accounts payable	\$ 103,870	\$ 67,380	\$ 82,850	\$ 88,400
Due to other governments	<u>673,872</u>	<u>37,894,776</u>	<u>37,773,957</u>	<u>794,691</u>
Total Liabilities	\$ <u>777,742</u>	\$ <u>37,962,156</u>	\$ <u>37,856,807</u>	\$ <u>883,091</u>

OTHER SCHEDULES

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Governmental Funds	Enterprise Fund	Total Primary Government
Shared Revenue			
State			
Highway users tax	\$ 4,524,189	\$ -	\$ 4,524,189
PERA rate reimbursement	28,165	-	28,165
Disparity reduction aid	10,540	-	10,540
Police aid	118,663	-	118,663
County program aid	311,482	-	311,482
Market value credit	141,564	-	141,564
Disaster abatement credit	9,139	-	9,139
Taconite credit	600,044	-	600,044
Enhanced 911	89,190	-	89,190
	\$ 5,832,976	\$ -	\$ 5,832,976
Reimbursement for Services			
State			
Minnesota Department of Human Services	\$ 482,932	\$ -	\$ 482,932
Payments			
Local			
Payments in lieu of taxes	\$ 1,115,858	\$ -	\$ 1,115,858
Grants			
State			
Minnesota Department/Board of			
Employment and Economic Development	\$ 250,000	\$ -	\$ 250,000
Public Safety	235,467	-	235,467
Transportation	902,154	-	902,154
Health	91,709	-	91,709
Natural Resources	876,249	-	876,249
Human Services	682,947	-	682,947
Water and Soil Resources	84,922	-	84,922
Minnesota Pollution Control Agency	58,784	-	58,784
Office of Environmental Assistance	55,950	-	55,950
	\$ 3,238,182	\$ -	\$ 3,238,182

**AITKIN COUNTY
AITKIN, MINNESOTA**

***EXHIBIT D-1
(Continued)***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Governmental Funds	Enterprise Fund	Total Primary Government
Grants (Continued)			
Federal			
Department of			
Agriculture	\$ 181,465	\$ 4,569	\$ 186,034
Justice	100,136	-	100,136
Transportation	1,623,261	-	1,623,261
Health and Human Services	1,449,018	-	1,449,018
Homeland Security	563,929	-	563,929
	\$ 3,917,809	\$ 4,569	\$ 3,922,378
Total federal	\$ 3,917,809	\$ 4,569	\$ 3,922,378
Total state and federal grants	\$ 7,155,991	\$ 4,569	\$ 7,160,560
Total Intergovernmental Revenue	\$ 14,587,757	\$ 4,569	\$ 14,592,326

**AITKIN COUNTY
AITKIN, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2012**

	Assets			Total
	Cash	Special Assessments Receivable	Due from Other Ditches	
County Ditches				
5	\$ -	\$ -	\$ -	\$ -
24	-	369	1,500	1,869
28	-	-	-	-
29	265	-	-	265
30	28,144	1,295	11,861	41,300
34	796	890	-	1,686
36	2,755	1,099	-	3,854
37	-	7,666	-	7,666
42	-	-	-	-
43	-	-	-	-
63	1,513	5,618	-	7,131
66	1,279	-	-	1,279
Judicial Ditch				
2	12,316	162	-	12,478
Diversion Channel	2	-	-	2
Total	\$ 47,070	\$ 17,099	\$ 13,361	\$ 77,530

EXHIBIT D-2

Accounts Payable	Due to Other Funds	Liabilities		Total	Fund Balance	Total Liabilities and Fund Balance
		Deferred Revenue	Due to Other Ditches			
\$ -	\$ -	\$ -	\$ 7,250	\$ 7,250	\$ (7,250)	\$ -
200	-	369	-	569	1,300	1,869
-	-	-	1,287	1,287	(1,287)	-
-	-	-	-	-	265	265
-	-	1,295	-	1,295	40,005	41,300
-	-	890	65	955	731	1,686
-	-	1,099	65	1,164	2,690	3,854
-	-	7,666	2,173	9,839	(2,173)	7,666
-	-	-	935	935	(935)	-
-	-	-	76	76	(76)	-
-	4,405	5,618	-	10,023	(2,892)	7,131
-	-	-	1,510	1,510	(231)	1,279
-	-	162	-	162	12,316	12,478
-	15,666	-	-	15,666	(15,664)	2
\$ 200	\$ 20,071	\$ 17,099	\$ 13,361	\$ 50,731	\$ 26,799	\$ 77,530

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT D-3

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Education Special Milk Program for Children	10.556	\$ 4,569
Passed Through Aitkin Itasca Koochiching Community Health Services Board Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	74,753
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>106,712</u>
Total U.S. Department of Agriculture		<u>\$ 186,034</u>
U.S. Department of Justice		
Direct Violence Against Women Formula Grants	16.588	<u>\$ 100,136</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction	20.205	\$ 1,439,353
Passed Through Minnesota Department of Natural Resources Highway Planning and Construction Cluster Recreational Trails Program	20.219	<u>110,107</u>
Total U.S. Department of Transportation		<u>\$ 1,549,460</u>
U.S. Department of Health and Human Services		
Passed Through Aitkin Itasca Koochiching Community Health Services Board Public Health Emergency Preparedness	93.069	\$ 12,499
Temporary Assistance for Needy Families (TANF) Cluster Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$237,665)	93.558	52,439
Immunization - ARRA	93.712	573
Medical Assistance Program (Total Medical Assistance Program 93.778 \$464,986)	93.778	46,488
Maternal and Child Health Services Block Grant to the States	93.994	22,819

**AITKIN COUNTY
AITKIN, MINNESOTA**

**EXHIBIT D-3
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	3,468
Temporary Assistance for Needy Families (TANF) Cluster		
Temporary Assistance for Needy Families	93.558	185,226
(Total Temporary Assistance for Needy Families 93.558 \$237,665)		
Emergency Contingency Fund for TANF State Program - ARRA	93.714	12,130
Child Support Enforcement	93.563	476,558
Refugee and Entrant Assistance - State Administered Programs	93.566	282
Child Care and Development Block Grant	93.575	9,777
Stephanie Tubbs Jones Child Welfare Services Program	93.645	867
Foster Care - Title IV-E	93.658	99,410
Social Services Block Grant	93.667	119,555
Chafee Foster Care Independence Program	93.674	1,934
Children's Health Insurance Program	93.767	32
Medical Assistance Program	93.778	418,498
(Total Medical Assistance Program 93.778 \$464,986)		
Total U.S. Department of Health and Human Services		\$ 1,462,555
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 508,090
Passed Through Northeast Minnesota Regional Radio Board		
Homeland Security Grant Program	97.067	152,166
Total U.S. Department of Homeland Security		\$ 660,256
Total Federal Awards		\$ 3,958,441

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**AITKIN COUNTY
AITKIN, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Aitkin County under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Aitkin County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Aitkin County.

3. Summary of Significant Accounting Policies

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

4. Clusters

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

Highway Planning and Construction Cluster	\$ 1,549,460
Temporary Assistance for Needy Families Cluster	249,795

**AITKIN COUNTY
AITKIN, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 3,922,378
Grants received more than 60 days after year-end, deferred in 2012	
Highway Planning and Construction	77,359
Child Support Enforcement	13,537
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	96,327
Deferred in 2011, recognized as revenue in 2012	
Highway Planning and Construction	(151,160)
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 3,958,441

6. Subrecipients

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

CFDA Number	Program Name	Amount Provided to Subrecipients
16.588	Violence Against Women Formula Grants	\$ 100,136
20.219	Highway Planning and Construction Cluster Recreational Trails Program	7,206

7. American Recovery and Reinvestment Act

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

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**AITKIN COUNTY
AITKIN, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

Highway Planning and Construction Cluster	
Highway Planning and Construction	CFDA #20.205
Recreational Trails Program	CFDA #20.219
Temporary Assistance for Needy Families (TANF) Cluster	
Temporary Assistance for Needy Families	CFDA #93.558
Emergency Contingency Fund for TANF State Program - ARRA	CFDA #93.714
Medical Assistance Program	CFDA #93.778
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	CFDA #97.036

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

Aitkin County qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-5 Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion. In order to maintain proper internal control over County revenue transactions and cash assets, cash collection duties should be segregated so the basic functions of authorization, custody, and recording are not under the control of any one employee.

Condition: The County Treasurer does not segregate the duties of cash collection and receipting from the bank reconciliation process. In the County Auditor's office, employees who receipt cash and process cash disbursements have the ability to make journal entries. Furthermore, due to the limited number of office personnel within the various County offices, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible.

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

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

Cause: The County informed us that due to the available resources it would not be able to hire additional qualified accounting staff to segregate duties in every department.

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

Client's Response:

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

06-3 Accounting Policies and Procedures Manual

Criteria: County management is responsible for developing and monitoring its internal controls. An essential element of monitoring controls includes documenting the County's accounting policies and procedures. Significant internal controls to be documented would include areas such as receipts, disbursements, payroll, capital assets, journal entries, and credit cards.

Condition: Inquiries of County management found that significant internal controls of its accounting system have not been documented. The County does not have a current and comprehensive accounting policies and procedures manual, including risk assessment and monitoring procedures.

Context: Documentation and monitoring of internal controls is necessary to determine controls are in place and operating effectively. 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 can help to avoid circumvention of County policies.

Effect: As a result of this condition, the County's practices may not be followed as intended by management, and employees may not understand the purpose of internal controls. The lack of risk assessment and monitoring procedures increases the risk of fraud.

Cause: The County has begun the process of developing formal policies and procedures that will include monitoring. Due to limited time and resources, the County has not been able to complete this project.

Recommendation: We recommend the County Auditor’s Office continue its efforts to develop a comprehensive accounting policies and procedures manual including documentation for the internal control systems over receipts, disbursements, payroll, capital assets, journal entries, and credit cards. The 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 level of staff is to perform the procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support of 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 Annual Adopted Budget and Budget Policy

Criteria: Written policies and procedures outline the specific authority and responsibility of County personnel, providing for accountability.

Condition: The Board has not developed and adopted a formal budget policy for management’s administration of the County budget. The County Board adopts a summarized budget at the fund level on an annual basis.

Context: Written policies serve as a reference and training tool for new personnel and ensure that procedures remain in place despite personnel turnover. To be effective, an accounting policies and procedures manual must be complete, up-to-date, and readily available to all personnel who need it.

Effect: Budgeting procedures may not be clear or fully understood by all those involved in the budgeting process.

Cause: Budgeting procedures exist; however, these procedures have not been formalized into written form to be approved by the Board and included in the County’s Accounting Policies and Procedures Handbook.

Recommendation: We again recommend the County Board develop and adopt budget policies and procedures to include the following elements:

- which funds require budgets,
- the legal level of budgetary 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
- procedures for monitoring the budget.

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. The County will document these procedures into a formal policy.

06-8 Computer Risk Management

Criteria: The County's management is responsible for identifying and managing the risks associated with its computer system. Computer risk management suggests that a formal plan be developed to identify the risks associated with the County's information system and document the internal controls implemented to address the identified risks.

Condition: The County has internal controls in place for its computer system. However, a formal risk assessment of existing controls over significant functions of the computer system has not been completed.

Context: The risk assessment is intended to determine if the internal controls established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided. Without a formal plan, computer risks could exist that are not identified on a timely basis.

Effect: Unprotected risks could result in a loss or compromise of data that could negatively influence County operations.

Cause: Staff from the County are aware of the various risks associated with the County's computer systems, however, has not developed a formal plan to identify and manage risks associated with its computer system.

Recommendation: We again recommend County management document the significant internal controls in its computer system. We also recommend a formal plan be developed that calls for assessing and monitoring significant internal controls on a regular basis, no less than annually. The assessment of risks should be documented and procedures implemented to address those risks found.

Client's Response:

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

PREVIOUSLY REPORTED ITEM RESOLVED

Audit Adjustments (11-1)

During our 2011 audit, we identified material adjustments that resulted in significant changes to the County's financial statements.

Resolution

We had no material adjustments to the County's financial statements for the year ended December 31, 2012.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

11-4 Eligibility

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778)

Pass-Through Agency: Minnesota Department of Human Services

Criteria: OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its programs.

Condition: The state maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. While periodic supervisory case reviews are performed to provide reasonable assurance of compliance with grant requirements for eligibility, documentation was not available to support all participant eligibility requirements. Specifically, we noted three instances out of 40 case files tested where the information in MAXIS specific to assets was not consistent with the application in the individuals' supporting case files.

Questioned Costs: Not applicable. The County administers the program, but benefits to participants in this program are paid by the State of Minnesota.

Context: The State of Minnesota contracts with the County Social Services Department to perform the “intake function” (meeting with the social services client to determine income and categorical eligibility), while the state maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to the participants.

Effect: The improper input of information into MAXIS and lack of follow-up of issues increases the risk that clients will receive benefits when they are not eligible.

Cause: Program personnel entering case information into MAXIS did not ensure all required information was input into MAXIS correctly.

Recommendation: We recommend the County implement additional procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is properly input into MAXIS and issues are followed up on in a timely manner. In addition, consideration should be given to providing additional training to program personnel.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Health and Human Services Department - Financial Services

Corrective Action Planned:

Case reviews, review procedures for identifying and verifying assets and income of clients. Updating MAXIS with current information to reflect the client's current situation at the time of review.

Anticipated Completion Date:

Immediate and ongoing.

ITEMS ARISING THIS YEAR

12-1 Cash Management

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778)

Pass-Through Agency: Minnesota Department of Human Services

Criteria: The 2012 *OMB Circular A-133 Compliance Supplement*, Part 3 C., Cash Management, states that, when entities are funded on a reimbursement basis, the costs for which reimbursement was requested should be paid prior to the date of the reimbursement request.

Condition: The County requested reimbursement from the pass-through agency for federal program expenditures before some of the costs for which reimbursement was requested were paid. The County's practice for Medical Assistance ACCESS program reimbursements is to receive the supporting documentation from its vendors requesting payment and upload this information to a clearinghouse that submits it to the Minnesota Department of Human Services (DHS). After DHS makes approval to pay the County's request for reimbursement, the County pays its vendors.

Questioned Costs: None.

Context: The County followed the guidance in DHS Bulletin #12-21-08, which states that reimbursement is available after an allowed expense has been incurred by the vendor and required documentation such as individual receipts for each meal, lodging, parking (except meters) and client paid transportation services have been provided to the County.

Effect: Noncompliance with federal cash management requirements.

Cause: The County was relying on information provided by DHS, which is not in compliance with the federal requirement for cash management.

Recommendation: We recommend the County follow the 2012 OMB Circular A-133 Compliance Supplement and pay its vendors prior to requesting federal reimbursement from DHS.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Health and Human Services Department – Fiscal Services

Corrective Action Planned:

Claim for federal reimbursement (MA-ACCESS) will be submitted after payment is made to the vendor

**The County would like to note that submitting for reimbursement (MA-ACCESS) concurrently with processing the vendor payment was an assurance that duplicate vendor payments were not made.*

Anticipated Completion Date:

Immediate and ongoing

12-2 Procurement and Suspension and Debarment

Program: U.S. Department of Homeland Security’s Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA No. 97.036)

Pass-Through Agency: Minnesota Department of Public Safety

Criteria: Federal Regulation 45 C.F.R. § 92.35 prohibits any state or agency from purchasing goods and services with federal money from vendors who have been suspended or debarred by the federal government.

Condition: The County entered into contracts with vendors during the year which were funded with federal dollars. Prior to entering into the contracts, the County did not verify whether the vendors were suspended or debarred by the federal government.

Questioned Costs: None.

Context: The vendors hired by the County to provide services funded with federal awards may have been suspended or debarred for infractions on prior federally funded jobs.

Effect: The County had no assurance that its vendors for contracts funded with federal awards had not been suspended or debarred by the federal government.

Cause: County staff hired recommended vendors used by another county in the state of Minnesota.

Recommendation: We recommend the County develop internal controls and written policies and procedures to ensure compliance with the requirements over procurement and suspension and debarment. Such procedures should be completed prior to awarding a contract to a vendor on projects funded with federal awards. Documentation should exist to support the monitoring of and compliance with this requirement.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Environmental Services Department

Corrective Action Planned:

Become familiar with Federal Regulations 45 C.F.R. § 92.35

Anticipated Completion Date:

Immediate and ongoing

12-3 Activities Allowed or Unallowed

Program: U.S. Department of Homeland Security's Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA No. 97.036)

Pass-Through Agency: Minnesota Department of Public Safety

Criteria: OMB Circular A-133, § .300(b), indicates auditee responsibilities include maintaining internal controls over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have material effect on each of its federal programs.

Condition: The County requested and received reimbursement on work done on specific roads that were not included in the project worksheets previously approved by the Federal Emergency Management Agency (FEMA).

Questioned Costs: \$13,999

Context: After significant flooding in 2012, the County qualified for public assistance aid. During the assessment process, a FEMA representative and personnel from the County documented damaged properties and allowable projects on project worksheets.

Effect: The County expended federal funds for repairing roads that were not on the approved project worksheets as allowable activities.

Cause: The County believed these costs were allowable; however, the County was unable to provide such documentation to the auditor.

Recommendation: We recommend that Aitkin County contact the Minnesota Department of Public Safety and the U.S. Department of Homeland Security to determine if questioned costs should be returned.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Road and Bridge Department

Corrective Action Planned:

Currently staff are reviewing this matter with the Minnesota Department of Public Safety for guidance on the correct handling of the questioned costs.

Anticipated Completion Date:

Immediate and on going

PREVIOUSLY REPORTED ITEMS RESOLVED

Davis-Bacon Act - Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance (CFDA No. 81.117) (11-2)

The County had not performed any monitoring procedures to determine compliance with the Davis-Bacon Act, which requires the contractors and subcontractors hired by the County on projects funded by federal dollars to pay prevailing wage rates not less than those established by the U.S. Department of Labor.

Resolution

There were no expenditures during the year ended December 31, 2012, related to this specific grant and thus no requirement for the County to perform monitoring procedures to determine compliance with the Davis-Bacon Act.

Procurement and Suspension and Debarment - Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance (CFDA No. 81.117) (11-3)

The County had not verified, prior to entering into a contract with a vendor, whether the vendor had been suspended or debarred by the federal government.

Resolution

There were no contracts entered into during the year ended December 31, 2012, related to this specific grant and thus no requirement for the County to determine whether a vendor had been suspended or debarred by the federal government.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-3 Individual Ditch System Equity Balance Deficits

Criteria: Assets should exceed liabilities in order for the County to meet its obligations and maintain a positive fund balance. Under Minn. Stat. § 103E.655, drainage project costs must be paid from the drainage system account. Minn. Stat. § 103E.735, subd. 1, permits the accumulation of a surplus balance for the repair costs of a ditch system not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is greater.

Condition: As of December 31, 2012, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balance accounts.

Context: Eight of the 14 individual ditch systems had deficit fund balances as of December 31, 2012, totaling \$30,508. This is an increase from the \$22,419 deficit balances reported in the prior year.

Effect: Allowing a ditch system to maintain a deficit fund balance, in effect, constitutes an interest-free loan from other individual ditch systems, and may be inconsistent with Minn. Stat. § 103E.655.

Cause: Ditch expenditures were necessary, and the ditch levies were not sufficient to cover all costs.

Recommendation: We recommend the County eliminate the ditch 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 costs of a ditch system.

Client's Response:

As substantial portions of Aitkin County ditches are located in the Minnesota Department of Natural Resource-managed ConCon area, there is not a payment source for those assessments. The County Board has authorized transfers from the County Development Fund to cover the deficits.

06-11 Long Lake Conservation Center Enterprise Fund Deficit Cash Balance

Criteria: The County should maintain a positive cash balance in its funds in order for the County to meet its obligations.

Condition: As of December 31, 2012, the Long Lake Conservation Center Enterprise Fund had a cash deficit of \$366,371 resulting in the need for an interfund loan of that amount from the General Fund.

Context: As of December 31, 2012, the Long Lake Conservation Center Enterprise Fund had an interfund loan of \$366,371, which is a decrease from the \$380,524 interfund loan reported in the prior year.

Effect: A fund with a deficit cash balance is, in effect, borrowing from County funds with positive cash balances.

Cause: The County has been attempting to reduce operating expenses in an effort to reduce the deficit.

Recommendation: We recommend the County monitor the cash balance in the Long Lake Conservation Center Enterprise Fund and eliminate the deficit cash balance by a combination of increasing revenues and/or decreasing expenses, or by having the Board of County Commissioners authorize a permanent transfer from the County's General Fund.

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. In 2012, LLCC was able to reduce the deficit slightly.

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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*

Independent Auditor's Report

Board of County Commissioners
Aitkin County

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Aitkin County, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2013. We have qualified our opinion on the financial statements of the governmental activities and business-type activities because of the possible effects of not being able to obtain a discussion or evaluation from Aitkin County's legal counsel of any litigation, claims, assessments, and unasserted claims or an estimate of the financial implications involved. Consequently, we were unable to determine whether any adjustments to the financial statements of the governmental activities and business-type activities were necessary.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Aitkin County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 96-5, 06-3, 06-5, and 06-8, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Aitkin County's financial statements are free from 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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing as the cities administer the tax increment financing for Aitkin County.

In connection with our audit, nothing came to our attention that caused us to believe that Aitkin County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

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

Aitkin County's responses to the internal control and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2013

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Aitkin County

Report on Compliance for Each Major Federal Program

We have audited Aitkin County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2012. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Aitkin County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Aitkin County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 12-2 and 12-3. Our opinion on each major federal program is not modified with respect to these matters.

Aitkin County's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Aitkin County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance and that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 11-4 and 12-1 through 12-3 that we consider to be significant deficiencies.

Aitkin County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Aitkin County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 27, 2013

/s/Greg Hierlinger

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