

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

CROW WING COUNTY
BRAINERD, MINNESOTA

YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

The mission of the State Auditor's Office 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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**CROW WING COUNTY
BRAINERD, MINNESOTA**

Year Ended December 31, 2006



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

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**CROW WING COUNTY
BRAINERD, MINNESOTA**

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BRAINERD, MINNESOTA**

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**CROW WING COUNTY
BRAINERD, MINNESOTA**

ORGANIZATION
2006

Office	Name	Elected or Statutory Term Expires
County Board of Commissioners		
1st District	Dewayne (“Dewey”) Tautges***	January 2009
2nd District	Ed Larsen*	January 2007
3rd District	Terry L. Sluss	January 2007
4th District	Gary W. Walters	January 2007
5th District	John (“Jinx”) Ferrari**	January 2009
County Offices		
Elected		
Attorney	Donald F. Ryan	January 2007
Auditor	Deborah A. Erickson	January 2007
Recorder	Kathy Ludenia	January 2007
Sheriff	Eric P. Klang	January 2007
Treasurer	Laureen E. Borden	January 2007
Appointed		
County Administrator	David Hamilton	Indefinite
County Assessor	Martyn Schmidt	December 31, 2008
Engineer	Duane A. Blanck	June 2007
Examiner of Titles	Glen A. Gustafson	Indefinite
Land Commissioner	Thomas J. Cowell	Indefinite
Veterans Service Officer	David R. Schuldheisz	Indefinite
County Surveyor	Donald Sigety	Indefinite
Solid Waste Coordinator	Douglas R. Morris	Indefinite
Human Services Director	Susan M. Beck	Indefinite

*Denotes 2006 Chair

**Denotes 2007 Chair until April 25, 2007

***Denotes 2007 Chair after April 25, 2007

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Crow Wing County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Crow Wing County, Minnesota, as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Crow Wing County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Serpent Lake Sanitary Sewer District, which represent 55 percent, 85 percent, and 71 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Serpent Lake Sanitary Sewer District, is based solely upon the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Serpent Lake Sanitary Sewer District were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Crow Wing County as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the budgetary comparison Schedules 1 through 4 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2007, on our consideration of Crow Wing County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**CROW WING COUNTY
BRAINERD, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006
(Unaudited)**

The financial management of Crow Wing County offers readers of Crow Wing County's financial statements this narrative overview and analysis of the financial activities of Crow Wing County for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The assets of Crow Wing County exceeded its liabilities at the close of the most recent fiscal year by \$133,504,995 (net assets). Of this amount, \$45,279,993 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$11,412,333. This increase is a combination of additional capital assets and budget savings from operations. Most of the capital assets increase is from infrastructure and buildings. The total net assets increase is categorized as governmental activities, 97 percent, with the balance, 3 percent, provided from the County's solid waste landfill business-type operation.
- As of the close of the 2006 fiscal year, Crow Wing County's governmental funds reported combined ending fund balances of \$35,991,216, compared to \$41,919,541 reported at the close of the 2005 fiscal year. Approximately 78 percent of this amount, \$28,190,250, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$11,313,481, or 46 percent, of total General Fund expenditures, an increase of \$1,886,202 in comparison with the prior year.
- Crow Wing County's long-term debt decreased by \$13,000, or 0.02 percent, to \$59,669,050 during the current fiscal year. In 2006, Crow Wing County issued debt for General Obligation Capital Notes in the amount of \$3,210,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Management's Discussion and Analysis is intended to serve as an introduction to Crow Wing County's basic financial statements. Crow Wing County's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of Crow Wing County's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of Crow Wing County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Crow Wing County is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (such as uncollected taxes and earned but unused vacation and severance leave).

Both government-wide financial statements distinguish functions of Crow Wing County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of Crow Wing County include general government, public safety, highways and streets, human services, health services, culture and recreation, and conservation of natural resources. The business-type activity of Crow Wing County is Crow Wing County Solid Waste.

The government-wide financial statements include not only Crow Wing County itself (known as the primary government), but also a legally separate sanitary management district, a sewer district, and housing and redevelopment authority for which Crow Wing County is financially accountable. Financial information for the component units are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements may be found on Exhibits 1 and 2 of this report.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Crow Wing County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of Crow Wing County can be divided into three broad categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Within the governmental funds, Crow Wing County maintains five fund types: general, special revenue, debt service, capital projects, and permanent. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund; Road and Bridge, Human Services, and Land Management Special Revenue Funds; Debt Service Fund; and Capital Projects Fund, all of which are considered to be major funds. Data from the other five special revenue nonmajor governmental funds and the permanent fund are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Crow Wing County adopts an annual appropriated budget for its General Fund, certain special revenue funds, and the Debt Service Fund. A budgetary comparison schedule has been provided for the General Fund, special revenue funds, and the Debt Service Fund to demonstrate compliance with their budgets.

The basic governmental fund financial statements may be found on Exhibits 3 through 6 of this report.

General Fund. The General Fund is used to account for all financial resources not required to be accounted for in another fund.

Special Revenue Funds. Special revenue governmental funds account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The special revenue funds include:

- Road and Bridge,
- Human Services,
- SCORE,
- Tobacco Compliance,
- Land Management,
- County Building,
- Unorganized Townships, and
- Extension Grants.

Debt Service Fund. The Debt Service Fund accounts for the payment of principal, interest, and fiscal charges on long-term debt obligations of Crow Wing County.

Capital Projects Fund. The Capital Projects Fund is used as needed to track the use of equipment certificates and to track major construction projects.

Permanent Fund. The Permanent Fund is used to report resources that are legally restricted to the extent that only earnings and not principal from the Environmental Trust Permanent Fund may be used for environmental purposes.

Proprietary fund. Crow Wing County maintains one proprietary fund. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. Crow Wing County uses an enterprise fund to account for its solid waste landfill operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Solid Waste Enterprise Fund, which is considered to be a major fund of Crow Wing County.

The basic proprietary fund financial statements can be found on Exhibits 7 through 9 of this report.

Fiduciary funds. Fiduciary funds (trust and agency funds) are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Crow Wing County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on Exhibit 10 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 39 through 81 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information that can be found on pages 82 through 88. The combining statements referred to earlier in connection with nonmajor governmental funds are in the supplementary information section and follow the notes to the required supplementary information. Combining and individual fund statements can be found on pages 89 through 104 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Crow Wing County, assets exceeded liabilities by \$133,504,995 at the close of the most recent fiscal year, which is an increase of \$11,412,333 over 2005.

Capital assets, net of related debt, of \$78,921,225 (land, buildings, land improvements, infrastructure, construction in progress, and machinery and equipment, less any related debt used to acquire assets that is still outstanding) represents the largest portion of net assets (59 percent). Crow Wing County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Crow Wing County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of Crow Wing County's net assets (seven percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is \$45,279,993.

Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 58,579,632	\$ 65,342,826	\$ 10,387,152	\$ 10,070,254	\$ 68,966,784	\$ 75,413,080
Capital assets	131,461,588	117,327,246	2,722,007	2,206,100	134,183,595	119,533,346
Total Assets	\$ 190,041,220	\$ 182,670,072	\$ 13,109,159	\$ 12,276,354	\$ 203,150,379	\$ 194,946,426
Long-term liabilities outstanding	\$ 57,427,507	\$ 57,508,458	\$ 1,690,228	\$ 1,243,393	\$ 59,117,735	\$ 58,751,851
Other liabilities	10,441,411	14,007,901	86,238	94,012	10,527,649	14,101,913
Total Liabilities	\$ 67,868,918	\$ 71,516,359	\$ 1,776,466	\$ 1,337,405	\$ 69,645,384	\$ 72,853,764

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Net Assets						
Invested in capital assets, net of related debt	\$ 76,199,218	\$ 74,204,210	\$ 2,722,007	\$ 2,206,100	\$ 78,921,225	\$ 76,410,310
Restricted	9,303,777	7,650,813	-	-	9,303,777	7,650,813
Unrestricted	36,669,307	29,298,690	8,610,686	8,732,849	45,279,993	38,031,539
Total Net Assets	\$ 122,172,302	\$ 111,153,713	\$ 11,332,693	\$ 10,938,949	\$ 133,504,995	\$ 122,092,662

In 2006 and 2005, the County was able to report positive balances in all three categories of net assets, including the government as a whole, as well as for its separate governmental and business-type activities.

Crow Wing County's net assets increased \$11,412,333 over 2005. This increase is the result of many surpluses and deficits, but the primary change is an increase in capital assets of \$14,650,249, which includes a variety of County road construction projects, completing building projects in the downtown County campus, and equipment purchases.

Governmental Activities

Governmental activities increased Crow Wing County's net assets by \$11,018,589, thereby accounting for 97 percent of the total growth in the net assets of Crow Wing County. A key element of this growth was the increase in capital assets of \$14,134,342. The majority of the increase in capital assets was from buildings.

Business-Type Activities

Business-type activities increased Crow Wing County's net assets by \$393,744, accounting for three percent of the total change in the government's net assets.

Changes in Net Assets

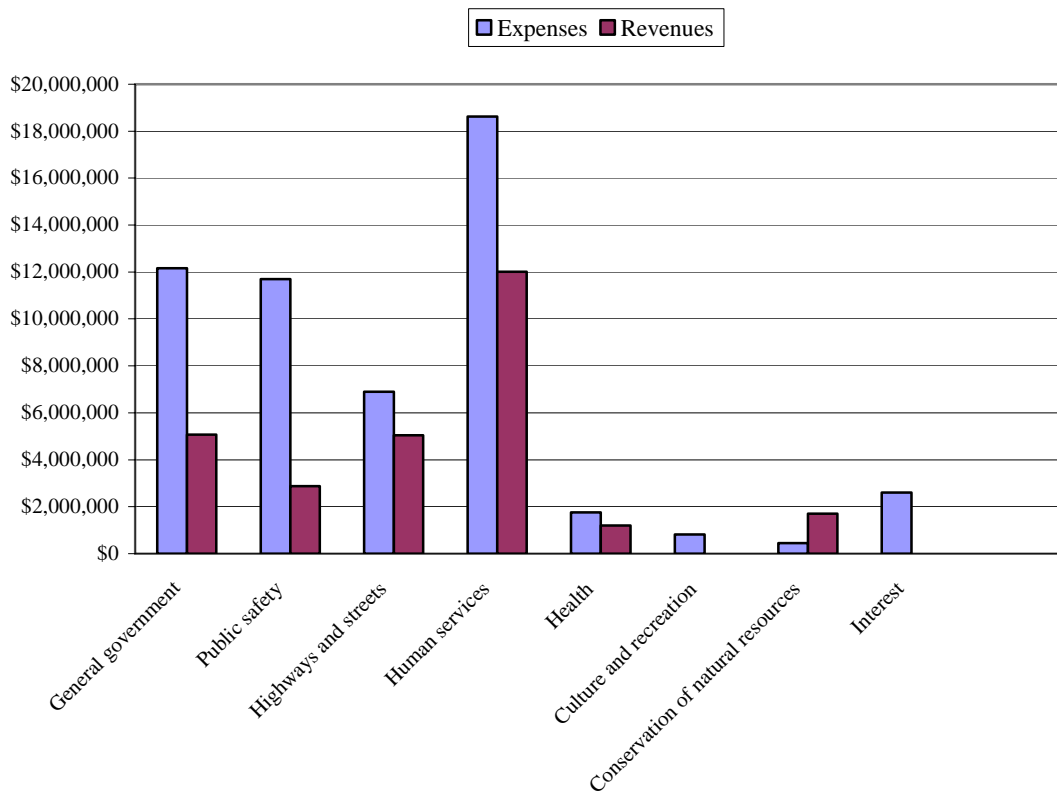
	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues						
Charges for services	\$ 8,346,952	\$ 5,819,345	\$ 1,781,755	\$ 2,029,358	\$ 10,128,707	\$ 7,848,703
Operating grants and contributions	14,780,116	15,423,277	-	-	14,780,116	15,423,277
Capital grants and contributions	4,776,489	7,592,536	-	-	4,776,489	7,592,536
General revenues						
Property taxes	29,932,221	26,498,197	-	-	29,932,221	26,498,197
Mortgage registry and deed tax	126,037	146,693	-	-	126,037	146,693
Payments in lieu of tax	311,650	190,000	-	-	311,650	190,000
Grants and contributions not restricted to specific programs	4,657,577	4,714,976	595	595	4,658,172	4,715,571
Investment income	2,173,885	2,075,010	164,749	104,887	2,338,634	2,179,897
Gain/(Loss) on asset disposition	157	191,507	-	-	157	191,507
Miscellaneous	907,866	1,889,873	-	-	907,866	1,889,873
Transfers in (out)	-	11,324	-	(11,324)	-	-
Total Revenues	\$ 66,012,950	\$ 64,552,738	\$ 1,947,099	\$ 2,123,516	\$ 67,960,049	\$ 66,676,254

(Unaudited)

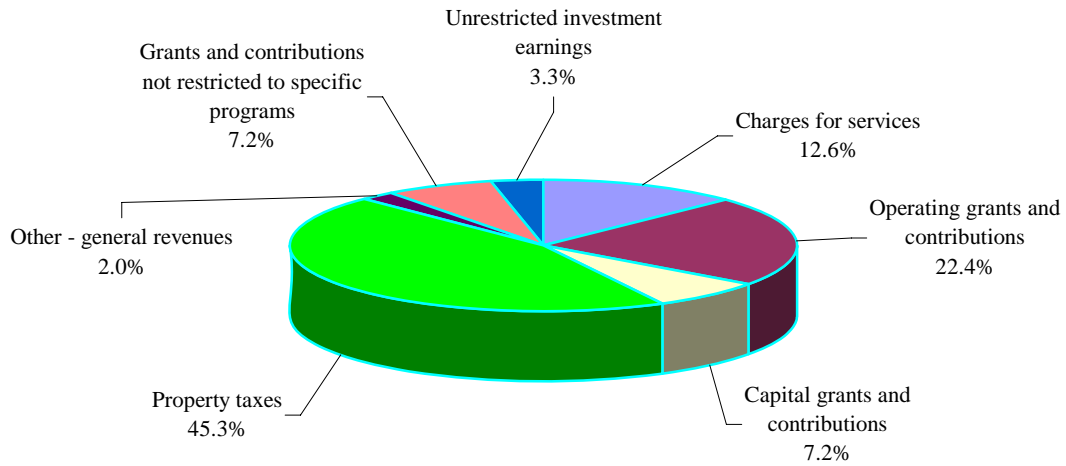
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	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Expenses						
General government	\$ 12,154,588	\$ 10,119,770	\$ -	\$ -	\$ 12,154,588	\$ 10,119,770
Public safety	11,702,501	9,639,617	-	-	11,702,501	9,639,617
Highways and streets	6,891,846	7,760,742	-	-	6,891,846	7,760,742
Human services	18,616,333	17,782,967	-	-	18,616,333	17,782,967
Health	1,757,764	1,982,727	-	-	1,757,764	1,982,727
Culture and recreation	822,625	722,320	-	-	822,625	722,320
Conservation of natural resources	444,774	1,503,147	-	-	444,774	1,503,147
Interest	2,603,930	2,790,174	-	-	2,603,930	2,790,174
Operating expenses - solid waste	-	-	1,553,355	1,355,304	1,553,355	1,355,304
Total Expenses	\$ 54,994,361	\$ 52,301,464	\$ 1,553,355	\$ 1,355,304	\$ 56,547,716	\$ 53,656,768
Increase (Decrease) in Net Assets	\$ 11,018,589	\$ 12,251,274	\$ 393,744	\$ 768,212	\$ 11,412,333	\$ 13,019,486
Net Assets - January 1	\$ 111,153,713	\$ 98,909,781	\$ 10,938,949	\$ 9,738,654	\$ 122,092,662	\$ 108,648,435
Prior period adjustment	-	(7,342)	-	432,083	-	424,741
Net Assets - January 1, as adjusted	\$ 111,153,713	\$ 98,902,439	\$ 10,938,949	\$ 10,170,737	\$ 122,092,662	\$ 109,073,176
Net Assets - December 31	\$ 122,172,302	\$ 111,153,713	\$ 11,332,693	\$ 10,938,949	\$ 133,504,995	\$ 122,092,662

Expenses and Program Revenues - Governmental Activities



Revenue by Sources - Governmental Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, Crow Wing County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of Crow Wing County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Crow Wing County's financing requirements. In particular, unreserved, undesignated fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Crow Wing County's governmental funds reported combined ending fund balances of \$35,991,216, a decrease of \$5,928,325 in comparison with the prior year. Of this total amount, \$28,190,250 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved, indicating that it is not available for new spending because it has already been committed for specific purposes. Most of the reserved fund balance is due to reserve for encumbrances for construction projects (\$2,591,986) and environmental uses (\$1,846,499). Crow Wing County has designated \$4,933,838 for debt service.

The General Fund is the chief operating fund of Crow Wing County. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund was \$11,171,396, while the total fund balance was \$12,890,256. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved, undesignated fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 46 percent of the total General Fund expenditures, while total fund balance represents 53 percent of that same amount.

The fund balance of Crow Wing County's General Fund increased \$2,458,873 over 2005. This change is primarily due to a significant increase in investment earnings of \$816,968 higher than forecasted. Interest rates continued to grow throughout the year in 2006. Additionally, other favorable revenue and expenditure variances added to the fund balance increase.

The Road and Bridge Special Revenue Fund had a total fund balance of \$919,130 at the end of the current fiscal year. The fund balance of the Road and Bridge Special Revenue Fund increased by \$879,690 during the current fiscal year. This is primarily due to the timing of construction projects.

The Human Services Special Revenue Fund had a total fund balance of \$9,019,970 at the end of the current fiscal year. The fund balance of the Human Services Special Revenue Fund decreased by \$55,445 during the current fiscal year.

The Land Management Special Revenue Fund had a total fund balance of \$257,830 at the end of the current fiscal year. The fund balance of the Land Management Special Revenue Fund increased by \$53,049 during the current fiscal year.

The Debt Service Fund total fund balance of \$4,933,838 is designated for the payment of debt service. The fund balance of the Debt Service Fund increased by \$310,156 during the current fiscal year.

The Capital Projects Fund has a total fund balance of \$3,869,959 at the end of the current fiscal year. The fund balance of the Capital Projects Fund decreased by \$5,670,618 during the current fiscal year. This decrease is due to the spending down of proceeds related to bonds issued during 2004 in the combined amount of \$50,970,000.

Proprietary fund. Crow Wing County's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Factors concerning the finances of the Solid Waste Enterprise Fund have already been addressed in the discussion of Crow Wing County's business-type activities.

General Fund Budgetary Highlights

Budgets can be amended during the year by the County Board. Budget change requests are reviewed by the County Administrator's Office and submitted to the County Board for their review and approval.

Overall, the final amended budgetary fund balance usage increased by an immaterial amount of \$15,700 when compared to the original budget. However, several reallocations of expenditures were approved to allow for better tracking of revenues and expenditures within departments.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Crow Wing County's investment in capital assets for its government and business-type activities as of December 31, 2006, amounts to \$134,183,595 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure, and construction in progress. The total increase in Crow Wing County's investment in capital assets for the current fiscal year was 12.3 percent.

Major capital asset events during 2006 included a variety of new County road construction projects and County building projects started to become complete. Construction in progress on these projects as of the close of the fiscal year was \$18,943,152.

Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 3,148,854	\$ 2,855,963	\$ 412,334	\$ -	\$ 3,561,188	\$ 2,855,963
Construction in progress	18,537,065	43,004,418	406,087	-	18,943,152	43,004,418
Infrastructure - right-of-way	1,802,365	1,692,952	-	-	1,802,365	1,692,952
Buildings	40,395,480	9,046,027	697,400	722,264	41,092,880	9,768,291
Land improvements	1,978,613	-	-	-	1,978,613	-
Machinery, furniture, and equipment	4,743,047	3,143,967	104,952	71,669	4,847,999	3,215,636
Infrastructure	60,856,164	57,583,919	-	-	60,856,164	57,583,919
Landfill	-	-	1,101,234	1,412,167	1,101,234	1,412,167
Total	\$ 131,461,588	\$ 117,327,246	\$ 2,722,007	\$ 2,206,100	\$ 134,183,595	\$ 119,533,346

Additional information on Crow Wing County's capital assets may be found in Note 3.A.3. of this report.

Long-Term Debt

At the end of 2006, Crow Wing County had total bonded debt outstanding of \$59,669,050. This is a decrease of \$13,000 from the start of the year due to paying of debt in debt service payments. In 2006, General Obligation Capital Notes were issued in the amount of \$3,210,000. Current and future County tax levies are used to finance the entire bonded indebtedness.

Crow Wing County maintains an "Aaa" rating from Moody's Investor Services for general obligation debt.

**Outstanding Debt
General Obligation and Revenue Bonds**

	Governmental Activities	
	2006	2005
General obligation bonds	\$ 55,335,000	\$ 54,900,000
Certificates of participation	75,000	150,000
Capital lease	1,529,050	1,582,050
Facility lease revenue bonds	2,730,000	3,050,000
Total	\$ 59,669,050	\$ 59,682,050

State statutes limit the amount of general obligation debt a county can incur to no more than two percent of the market value of taxable property in the county. The 2006 debt limitation for Crow Wing County is \$156,926,014, which is significantly in excess of Crow Wing County's outstanding debt of \$59,669,050.

Additional information on Crow Wing County's long-term debt may be found in Note 3.C. of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for the business-type activities.

- Crow Wing County continues to see increased residential and commercial growth. The County's total taxable net tax capacity increased by 15.6 percent in 2007 and 15.0 percent in 2008.
- Crow Wing County continues to have one of the lowest tax capacity rates in the State of Minnesota. Crow Wing County's tax capacity rate for 2007 is 34.001 percent.
- Federal legislation eliminated funding for Child Welfare Targeted Case Management for Minnesota counties. This resulted in a \$454,000 cut for Crow Wing County. This program was considered vital and, as a result, Crow Wing County taxpayers picked up the federal funding shortfalls.
- Property tax reforms and budget deficits at the state level significantly impacted government aid payments made to the County over the past couple of years. It is anticipated that in 2007 and 2008, Crow Wing County will see a reduction in County program aid by \$346,642 and \$81,267, respectively. The projected level of 2007 and 2008 County program aid is \$1,399,962 and \$1,318,395, respectively. Estimated 2008 County program aid is 51.6 percent less than the 2003 original certified amount of \$2,722,715 for similar state aids before the state-made major cuts.

On December 12, 2006, the Crow Wing County Board of Commissioners approved the 2007 budget for \$63,108,508. The 2007 total levy is \$33,169,882, which is an increase of \$1,848,022 compared to the 2006 levy of \$31,321,860. The 2007 budget includes a 5.9 percent overall property tax levy increase.

INDEPENDENT AUDIT

Minn. Stat. § 6.48 requires an annual examination of books of account, financial records, and transactions of all County functions by the Office of the State Auditor. When complete, the report will be available for inspection upon request at the County Auditor's Office during normal working hours.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Crow Wing County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: County Auditor Deborah A. Erickson, Crow Wing County Courthouse, 326 Laurel Street, Suite 22, Brainerd, Minnesota 56401. You may also contact us via email at cwcauditor@co.crow-wing.mn.us, or visit our web site at www.co.crow-wing.mn.us.

The Crow Wing County Sanitary Management District and Housing and Redevelopment Authority, discretely presented component units, do not prepare separate financial statements. Complete financial statements of the Serpent Lake Sanitary Sewer District may be obtained by writing to P. O. Box 84, Crosby, Minnesota 56441.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CROW WING COUNTY
BRainerd, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-Type Activities	Total	
<u>Assets</u>				
Cash and pooled investments	\$ 35,355,612	\$ 6,170,385	\$ 41,525,997	\$ 493,228
Petty cash and change funds	3,165	-	3,165	-
Investments	2,048,452	-	2,048,452	-
Taxes receivable				
Prior - net	824,765	-	824,765	1,444
Accounts receivable - net	419,957	107,616	527,573	32,714
Accrued interest receivable	463,966	-	463,966	3,142
Loan receivable	-	-	-	337,614
Contracts receivable	1,085,944	-	1,085,944	-
Internal balances	(284)	284	-	-
Due from other governments	3,025,277	-	3,025,277	29,201
Lease receivable	-	-	-	2,730,000
Inventories	809,493	-	809,493	-
Prepaid items	316,653	-	316,653	-
Restricted assets				
Cash and pooled investments	-	4,108,867	4,108,867	712,850
Deferred charges	138,095	-	138,095	-
Other assets	-	-	-	7,688
Investment in joint venture	14,088,537	-	14,088,537	-
Capital assets				
Non-depreciable	23,488,284	818,421	24,306,705	35,000
Depreciable - net of accumulated depreciation	107,973,304	1,903,586	109,876,890	3,297,162
Total Assets	\$ 190,041,220	\$ 13,109,159	\$ 203,150,379	\$ 7,680,043
<u>Liabilities</u>				
Cash overdraft	\$ -	\$ -	\$ -	\$ 17,717
Accounts payable	1,241,956	73,993	1,315,949	9,623
Salaries payable	741,676	2,063	743,739	1,346
Accrued payroll taxes	96,497	261	96,758	173
Other accrued liabilities	-	-	-	6,258
Contracts payable	2,006,248	-	2,006,248	-
Due to other governments	1,112,799	-	1,112,799	-
Accrued interest payable	972,693	-	972,693	726
Unearned revenue	66,593	-	66,593	2,730,000
Long-term liabilities				
Due within one year	4,202,949	9,921	4,212,870	144,431
Due in more than one year	57,427,507	1,690,228	59,117,735	334,678
Total Liabilities	\$ 67,868,918	\$ 1,776,466	\$ 69,645,384	\$ 3,244,952

**CROW WING COUNTY
BRAINERD, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

	<u>Primary Government</u>			Discretely Presented Component Units
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
<u>Net Assets</u>				
Invested in capital assets - net of related debt	\$ 76,199,218	\$ 2,722,007	\$ 78,921,225	\$ 2,904,238
Restricted for				
General government	865,555	-	865,555	-
Public safety	418,652	-	418,652	-
Highways and streets	809,493	-	809,493	-
Health	4,584	-	4,584	-
Culture and recreation	429,378	-	429,378	-
Conservation of natural resources	976,213	-	976,213	-
Debt service	3,896,670	-	3,896,670	-
Environmental uses - expendable	56,733	-	56,733	-
Environmental uses - nonexpendable	1,846,499	-	1,846,499	-
Unrestricted	<u>36,669,307</u>	<u>8,610,686</u>	<u>45,279,993</u>	<u>1,530,853</u>
Total Net Assets	<u>\$ 122,172,302</u>	<u>\$ 11,332,693</u>	<u>\$ 133,504,995</u>	<u>\$ 4,435,091</u>

**CROW WING COUNTY
BRAINERD, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>	<u>Program Revenues Operating Grants and Contributions</u>
Primary government			
Governmental activities			
General government	\$ 12,154,588	\$ 2,367,212	\$ 947,857
Public safety	11,702,501	2,250,647	621,057
Highways and streets	6,893,138	741,873	1,854,317
Human services	18,616,333	1,454,321	10,555,182
Health	1,757,764	554,011	650,199
Culture and recreation	822,625	-	-
Conservation of natural resources	444,774	978,888	151,504
Interest	2,602,638	-	-
Total governmental activities	\$ 54,994,361	\$ 8,346,952	\$ 14,780,116
Business-type activities			
Solid waste	1,553,355	1,781,755	-
Total primary government	\$ 56,547,716	\$ 10,128,707	\$ 14,780,116
Component units			
Housing and Redevelopment Authority	\$ 50,698	\$ 20,474	\$ -
Serpent Lake Sanitary Sewer District	354,142	416,000	-
Sanitary Management District	69,964	-	69,964
Total component units	\$ 474,804	\$ 436,474	\$ 69,964

General Revenues

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

Total general revenues

Change in net assets

Net Assets - Beginning, as previously reported
Prior period adjustment (Note 5.B.)

Net Assets - Beginning, as restated

Net Assets - Ending

EXHIBIT 2

	Net (Expense) Revenue and Changes in Net Assets			Discretely Presented Component Units
	Capital Grants and Contributions	Primary Government		
		Governmental Activities	Business-Type Activities	
\$ 1,755,011	\$ (7,084,508)	\$ -	\$ (7,084,508)	
-	(8,830,797)	-	(8,830,797)	
2,448,866	(1,848,082)	-	(1,848,082)	
-	(6,606,830)	-	(6,606,830)	
-	(553,554)	-	(553,554)	
-	(822,625)	-	(822,625)	
572,612	1,258,230	-	1,258,230	
-	(2,602,638)	-	(2,602,638)	
\$ 4,776,489	\$ (27,090,804)	\$ -	\$ (27,090,804)	
-	-	228,400	228,400	
\$ 4,776,489	\$ (27,090,804)	\$ 228,400	\$ (26,862,404)	
\$ -				\$ (30,224)
-				61,858
-				-
\$ -				\$ 31,634
	\$ 29,932,221	\$ -	\$ 29,932,221	\$ 51,295
	126,037	-	126,037	-
	311,650	-	311,650	-
	4,657,577	595	4,658,172	6,615
	2,173,885	164,749	2,338,634	65,714
	907,866	-	907,866	-
	157	-	157	-
	\$ 38,109,393	\$ 165,344	\$ 38,274,737	\$ 123,624
	\$ 11,018,589	\$ 393,744	\$ 11,412,333	\$ 155,258
	\$ 111,153,713	\$ 10,938,949	\$ 122,092,662	\$ 4,517,059
	-	-	-	(237,226)
	\$ 111,153,713	\$ 10,938,949	\$ 122,092,662	\$ 4,279,833
	\$ 122,172,302	\$ 11,332,693	\$ 133,504,995	\$ 4,435,091

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**CROW WING COUNTY
BRAINERD, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>
<u>Assets</u>			
Cash and pooled investments	\$ 12,481,838	\$ 523,680	\$ 8,582,684
Petty cash and change funds	3,065	-	-
Investments	22,291	-	-
Taxes receivable			
Prior	411,994	68,062	171,697
Accounts receivable	141,505	694	276,239
Accrued interest receivable	430,314	-	-
Contracts receivable	-	-	-
Due from other funds	874,665	40,030	-
Due from other governments	204,526	1,228,178	1,579,785
Prepaid expense	316,653	-	-
Inventories	-	809,493	-
	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 14,886,851</u>	<u>\$ 2,670,137</u>	<u>\$ 10,610,405</u>
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 529,869	\$ 66,302	\$ 594,104
Salaries payable	451,002	62,924	213,517
Accrued payroll taxes payable	59,199	8,113	27,347
Contracts payable	-	135,850	-
Due to other funds	36,052	500,026	5,701
Due to other governments	484,722	10,283	316,741
Deferred revenue - unavailable	435,751	967,509	433,025
Deferred revenue - unearned	-	-	-
	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>\$ 1,996,595</u>	<u>\$ 1,751,007</u>	<u>\$ 1,590,435</u>

EXHIBIT 3

<u>Land Management</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,289,260	\$ 4,933,838	\$ 3,701,025	\$ 3,843,287	\$ 35,355,612
100	-	-	-	3,165
-	-	2,026,161	-	2,048,452
-	149,844	-	23,168	824,765
72	-	-	1,447	419,957
-	-	20,440	13,212	463,966
1,085,944	-	-	-	1,085,944
-	-	-	338,762	1,253,457
-	-	-	12,788	3,025,277
-	-	-	-	316,653
-	-	-	-	809,493
<u>\$ 2,375,376</u>	<u>\$ 5,083,682</u>	<u>\$ 5,747,626</u>	<u>\$ 4,232,664</u>	<u>\$ 45,606,741</u>
\$ 6,544	\$ -	\$ 29,529	\$ 15,608	\$ 1,241,956
10,317	-	-	3,916	741,676
1,334	-	-	504	96,497
22,260	-	1,848,138	-	2,006,248
690,094	-	-	21,868	1,253,741
301,053	-	-	-	1,112,799
1,085,944	149,844	-	23,942	3,096,015
-	-	-	66,593	66,593
<u>\$ 2,117,546</u>	<u>\$ 149,844</u>	<u>\$ 1,877,667</u>	<u>\$ 132,431</u>	<u>\$ 9,615,525</u>

**CROW WING COUNTY
BRAINERD, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	General	Road and Bridge	Human Services
<u>Liabilities and Fund Balances</u>			
(Continued)			
Fund Balances			
Reserved for			
Encumbrances	\$ -	\$ -	\$ -
Inventories	-	809,493	-
SCORE	-	-	-
Law library	39,536	-	-
Recorder's equipment purchases	467,330	-	-
Recorder's unallocated land based	268,034	-	-
Enhanced 911	258,272	-	-
Environmental uses	-	-	-
Parks	429,378	-	-
Sheriff's forfeited property	14,557	-	-
Attorney's forfeited property	54,682	-	-
Sheriff's contingency	5,000	-	-
DUI assessment	30,280	-	-
Children's trust	9,706	-	-
Unreserved			
Designated for debt service	-	-	-
Designated for K-9 unit	7,814	-	-
Designated for bomb squad	53,329	-	-
Designated for healthy lakes	2,400	-	-
Designated for veterans service van	23,867	-	-
Designated for rifle range	6,043	-	-
Designated for dive team	8,176	-	-
Designated for County grants	17,265	-	-
Designated for lake area drug investigation	12,133	-	-
Designated for mounted patrol	5,489	-	-
Designated for human rights commission	691	-	-
Designated for fitness equipment	294	-	-
Designated for initiative foundation meth. grant	4,584	-	-
Undesignated	11,171,396	109,637	9,019,970
Unreserved, reported in nonmajor			
Special revenue funds	-	-	-
Permanent fund	-	-	-
	\$ 12,890,256	\$ 919,130	\$ 9,019,970
Total Fund Balances			
	\$ 14,886,851	\$ 2,670,137	\$ 10,610,405
Total Liabilities and Fund Balances			

EXHIBIT 3
(Continued)

<u>Land Management</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 2,591,986	\$ -	\$ 2,591,986
-	-	-	-	809,493
-	-	-	976,213	976,213
-	-	-	-	39,536
-	-	-	-	467,330
-	-	-	-	268,034
-	-	-	-	258,272
-	-	-	1,846,499	1,846,499
-	-	-	-	429,378
-	-	-	-	14,557
-	-	-	-	54,682
-	-	-	-	5,000
-	-	-	-	30,280
-	-	-	-	9,706
-	4,933,838	-	-	4,933,838
-	-	-	-	7,814
-	-	-	-	53,329
-	-	-	-	2,400
-	-	-	-	23,867
-	-	-	-	6,043
-	-	-	-	8,176
-	-	-	-	17,265
-	-	-	-	12,133
-	-	-	-	5,489
-	-	-	-	691
-	-	-	-	294
-	-	-	-	4,584
257,830	-	1,277,973	-	21,836,806
-	-	-	1,220,788	1,220,788
-	-	-	56,733	56,733
<u>\$ 257,830</u>	<u>\$ 4,933,838</u>	<u>\$ 3,869,959</u>	<u>\$ 4,100,233</u>	<u>\$ 35,991,216</u>
<u>\$ 2,375,376</u>	<u>\$ 5,083,682</u>	<u>\$ 5,747,626</u>	<u>\$ 4,232,664</u>	<u>\$ 45,606,741</u>

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**CROW WING COUNTY
BRAINERD, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

Fund balances - total governmental funds (Exhibit 3)		\$	35,991,216
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			131,461,588
Investment in joint venture is not available to pay for current period expenditures and, therefore, is not reported in the governmental funds.			14,088,537
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			3,096,015
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	\$	(55,335,000)	
Certificates of participation		(75,000)	
Facility lease revenue bonds		(2,730,000)	
Bond discount		142,671	
Bond premium		(356,988)	
Deferred debt issuance charges		138,095	
Accrued interest payable		(972,693)	
Compensated absences		(1,747,089)	
Capital leases payable		(1,529,050)	
		<u> </u>	<u>(62,465,054)</u>
Net assets of governmental activities (Exhibit 1)			<u><u>\$ 122,172,302</u></u>

**CROW WING COUNTY
BRainerd, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>
Revenues			
Taxes	\$ 15,607,013	\$ 2,392,209	\$ 6,058,043
Special assessments	-	-	-
Licenses and permits	826,959	-	-
Intergovernmental	4,966,917	4,441,743	11,216,803
Charges for services	2,502,726	1,134,587	70,470
Fines and forfeits	26,203	-	-
Gifts and contributions	25,566	-	-
Investment earnings	1,816,968	-	-
Sales	-	-	-
Miscellaneous	1,061,323	83,662	1,257,612
	<u>1,061,323</u>	<u>83,662</u>	<u>1,257,612</u>
Total Revenues	<u>\$ 26,833,675</u>	<u>\$ 8,052,201</u>	<u>\$ 18,602,928</u>
Expenditures			
Current			
General government	\$ 11,505,635	\$ -	\$ -
Public safety	10,032,575	-	-
Highways and streets	-	7,202,352	-
Human services	-	-	18,658,373
Health	1,775,457	-	-
Culture and recreation	807,769	-	-
Conservation of natural resources	253,366	-	-
Capital outlay	-	-	-
Debt service			
Principal	-	53,000	-
Interest	-	61,807	-
Bond issuance costs	-	-	-
Administrative (fiscal) charges	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>\$ 24,374,802</u>	<u>\$ 7,317,159</u>	<u>\$ 18,658,373</u>
Excess of Revenues Over (Under)			
Expenditures	<u>\$ 2,458,873</u>	<u>\$ 735,042</u>	<u>\$ (55,445)</u>

EXHIBIT 5

<u>Land Management</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 5,367,739	\$ -	\$ 489,420	\$ 29,914,424
-	-	-	622,979	622,979
793,568	-	-	-	1,620,527
66,395	540,074	-	247,312	21,479,244
1,618	-	-	330,334	4,039,735
-	-	-	1,190	27,393
-	-	-	-	25,566
-	-	287,999	76,869	2,181,836
645,984	-	-	-	645,984
46,468	52,819	1,568,409	1,014,028	5,084,321
<u>\$ 1,554,033</u>	<u>\$ 5,960,632</u>	<u>\$ 1,856,408</u>	<u>\$ 2,782,132</u>	<u>\$ 65,642,009</u>
\$ 984,724	\$ -	\$ 104,160	\$ 325,669	\$ 12,920,188
-	-	88,730	117,594	10,238,899
-	-	3,871	545,592	7,751,815
-	-	-	-	18,658,373
-	-	15,135	327	1,790,919
-	-	-	-	807,769
516,260	-	-	810,699	1,580,325
-	-	15,294,595	-	15,294,595
-	3,095,000	-	75,000	3,223,000
-	2,553,921	-	8,175	2,623,903
-	-	31,089	-	31,089
-	1,555	7,321	1,300	10,176
<u>\$ 1,500,984</u>	<u>\$ 5,650,476</u>	<u>\$ 15,544,901</u>	<u>\$ 1,884,356</u>	<u>\$ 74,931,051</u>
<u>\$ 53,049</u>	<u>\$ 310,156</u>	<u>\$ (13,688,493)</u>	<u>\$ 897,776</u>	<u>\$ (9,289,042)</u>

**CROW WING COUNTY
BRAINERD, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>
Other Financing Sources (Uses)			
Transfers in	\$ -	\$ -	\$ -
Transfers out	-	-	-
Bonds and notes issued	-	-	-
Premium on bonds/notes issued	-	-	-
Proceeds from sale of capital assets	-	157	-
	<u>-</u>	<u>157</u>	<u>-</u>
Total Other Financing Sources (Uses)	\$ -	\$ 157	\$ -
Change in Fund Balance	\$ 2,458,873	\$ 735,199	\$ (55,445)
Fund Balance - January 1	10,431,383	39,440	9,075,415
Increase (decrease) in reserved for inventories	-	144,491	-
	<u>-</u>	<u>144,491</u>	<u>-</u>
Fund Balance - December 31	\$ 12,890,256	\$ 919,130	\$ 9,019,970
	<u><u>12,890,256</u></u>	<u><u>919,130</u></u>	<u><u>9,019,970</u></u>

EXHIBIT 5
(Continued)

<u>Land Management</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 4,801,806	\$ 328,145	\$ 5,129,951
-	-	-	(5,129,951)	(5,129,951)
-	-	3,210,000	-	3,210,000
-	-	6,069	-	6,069
-	-	-	-	157
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,017,875</u>	<u>\$ (4,801,806)</u>	<u>\$ 3,216,226</u>
\$ 53,049	\$ 310,156	\$ (5,670,618)	\$ (3,904,030)	\$ (6,072,816)
204,781	4,623,682	9,540,577	8,004,263	41,919,541
-	-	-	-	144,491
<u><u>\$ 257,830</u></u>	<u><u>\$ 4,933,838</u></u>	<u><u>\$ 3,869,959</u></u>	<u><u>\$ 4,100,233</u></u>	<u><u>\$ 35,991,216</u></u>

**CROW WING COUNTY
BRAINERD, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (6,072,816)

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

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.

Expenditures for general capital assets and infrastructure	\$ 16,843,603	
Current year depreciation	<u>(2,652,502)</u>	14,191,101

In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the disposed capital assets. (56,759)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 890,673

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

Debt issued or incurred		
Bonds and notes issued	\$ (3,210,000)	
Premium on bonds and notes issued	(6,069)	
Bond issuance costs	<u>31,089</u>	(3,184,980)

Principal repayments		
General obligation bonds	\$ 2,775,000	
Certificates of participation	75,000	
Capital lease	53,000	
Facility lease revenue bonds	<u>320,000</u>	3,223,000

Increase in joint venture does not provide current financial resources and is not reported as revenue in the funds. 1,755,011

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 the funds.

Change in accrued interest payable	\$ 29,873	
Amortization of premiums and bond issuance costs	2,017	
Change in compensated absences	96,978	
Change in inventories	<u>144,491</u>	<u>273,359</u>

Change in net assets of governmental activities (Exhibit 2) \$ 11,018,589

SOLID WASTE ENTERPRISE FUND

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**CROW WING COUNTY
BRAINERD, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
SOLID WASTE ENTERPRISE FUND
DECEMBER 31, 2006**

Assets

Current assets	
Cash and pooled investments	\$ 6,170,385
Accounts receivable - net	107,616
Due from other funds	284
Total current assets	\$ 6,278,285
Restricted assets	
Cash and pooled investments	\$ 4,108,867
Noncurrent assets	
Capital assets	
Nondepreciable	\$ 818,421
Depreciable - net	1,903,586
Total noncurrent assets	\$ 2,722,007
Total Assets	\$ 13,109,159

Liabilities

Current liabilities	
Accounts payable	\$ 73,993
Salaries payable	2,063
Accrued payroll taxes	261
Compensated absences payable - current	9,921
Total current liabilities	\$ 86,238
Noncurrent liabilities	
Compensated absences payable - long-term	\$ 1,102
Estimated liability for landfill closure/postclosure	1,689,126
Total noncurrent liabilities	\$ 1,690,228
Total Liabilities	\$ 1,776,466

Net Assets

Invested in capital assets	\$ 2,722,007
Unrestricted	8,610,686
Total Net Assets	\$ 11,332,693

**CROW WING COUNTY
BRAINERD, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
SOLID WASTE ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

Operating Revenues	
Charges for services	\$ 1,780,105
License and permits	1,650
	<hr/>
Total Operating Revenues	\$ 1,781,755
Operating Expenses	
Personal services	\$ 64,870
Employee benefits and payroll taxes	21,613
Contracted services	435,242
Other services and charges	60,812
Supplies	86,454
Telephone	535
Utilities	22,710
Fuel	4,070
Advertising	5,216
Licenses and dues	2,374
Postage	3,496
Vehicle expense	14,444
Rent and lease equipment	249
Miscellaneous	37,315
Depreciation	347,294
Landfill closure and postclosure costs	446,661
	<hr/>
Total Operating Expenses	\$ 1,553,355
	<hr/>
Operating Income (Loss)	\$ 228,400
Nonoperating Revenues (Expenses)	
Intergovernmental	\$ 595
Interest income	164,749
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 165,344
	<hr/>
Change in Net Assets	\$ 393,744
	<hr/>
Net Assets - January 1	10,938,949
	<hr/>
Net Assets - December 31	\$ 11,332,693
	<hr/> <hr/>

**CROW WING COUNTY
BRAINERD, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
SOLID WASTE ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 1,814,922
Payments to suppliers	(683,489)
Payments to employees	(84,736)
	<hr/>
Net cash provided by (used in) operating activities	\$ 1,046,697
Cash Flows from Noncapital Financing Activities	
Intergovernmental	\$ 595
	<hr/>
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	\$ (863,201)
	<hr/>
Cash Flows from Investing Activities	
Investment earnings received	\$ 164,749
	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 348,840
Cash and Cash Equivalents at January 1	9,930,412
	<hr/>
Cash and Cash Equivalents at December 31	\$ 10,279,252
	<hr/> <hr/>
Cash and Cash Equivalents - Exhibit 7	
Cash and pooled investments	\$ 6,170,385
Restricted cash and pooled investments	4,108,867
	<hr/>
Total Cash and Cash Equivalents	\$ 10,279,252
	<hr/> <hr/>

**CROW WING COUNTY
BRAINERD, MINNESOTA**

***EXHIBIT 9
(Continued)***

**STATEMENT OF CASH FLOWS
SOLID WASTE ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006
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>\$ 228,400</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 347,294
(Increase) decrease in accounts receivable	24,665
(Increase) decrease in due from other funds	8,502
Increase (decrease) in accounts payable	(9,347)
Increase (decrease) in due to other funds	(1,225)
Increase (decrease) in compensated absences payable	1,747
Increase (decrease) in landfill closure costs	<u>446,661</u>
Total adjustments	<u>\$ 818,297</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 1,046,697</u></u>

FIDUCIARY FUNDS

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**CROW WING COUNTY
BRAINERD, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006**

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	\$ 4,581,284
Petty cash and change funds	150
Due from other governments	<u>89,357</u>
Total Assets	<u>\$ 4,670,791</u>
<u>Liabilities</u>	
Accounts payable	\$ 128,144
Salaries payable	100,305
Due to other governments	<u>4,442,342</u>
Total Liabilities	<u>\$ 4,670,791</u>

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DISCRETELY PRESENTED COMPONENT UNITS

**CROW WING COUNTY
BRainerd, MINNESOTA**

EXHIBIT 11

**COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2006**

	<u>Housing and Redevelopment Authority</u>	<u>Serpent Lake Sanitary Sewer District</u>	<u>Sanitary Management District</u>	<u>Total</u>
<u>Assets</u>				
Current assets				
Cash and pooled investments	\$ 365,201	\$ 128,027	\$ -	\$ 493,228
Taxes receivable				
Prior	1,444	-	-	1,444
Accounts receivable - net	-	32,714	-	32,714
Accrued interest receivable	-	3,142	-	3,142
Loan receivable	337,614	-	-	337,614
Due from other governments	-	-	29,201	29,201
Lease receivable	2,730,000	-	-	2,730,000
Total current assets	\$ 3,434,259	\$ 163,883	\$ 29,201	\$ 3,627,343
Noncurrent assets				
Restricted cash and cash equivalents	\$ -	\$ 712,850	\$ -	\$ 712,850
Other assets	-	7,688	-	7,688
Capital assets				
Nondepreciable	-	35,000	-	35,000
Depreciable - net	-	3,297,162	-	3,297,162
Total noncurrent assets	\$ -	\$ 4,052,700	\$ -	\$ 4,052,700
Total Assets	\$ 3,434,259	\$ 4,216,583	\$ 29,201	\$ 7,680,043
<u>Liabilities</u>				
Current liabilities				
Cash overdraft	\$ -	\$ -	\$ 17,717	\$ 17,717
Accounts payable	-	2,447	7,176	9,623
Salaries payable	-	-	1,346	1,346
Accrued payroll taxes	-	-	173	173
Other accrued liabilities	-	6,258	-	6,258
Accrued interest payable	-	726	-	726
Deferred revenue - unearned	2,730,000	-	-	2,730,000
General obligation bonds payable - current	4,431	140,000	-	144,431
Total current liabilities	\$ 2,734,431	\$ 149,431	\$ 26,412	\$ 2,910,274
Noncurrent liabilities				
General obligation bonds and notes payable - long-term	\$ 46,754	\$ 287,924	\$ -	\$ 334,678
Total Liabilities	\$ 2,781,185	\$ 437,355	\$ 26,412	\$ 3,244,952

**CROW WING COUNTY
BRAINERD, MINNESOTA**

***EXHIBIT 11
(Continued)***

**COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2006**

	<u>Housing and Redevelopment Authority</u>	<u>Serpent Lake Sanitary Sewer District</u>	<u>Sanitary Management District</u>	<u>Total</u>
<u>Net Assets</u>				
Invested in capital assets - net of related debt	\$ -	\$ 2,904,238	\$ -	\$ 2,904,238
Unrestricted	653,074	874,990	2,789	1,530,853
Total Net Assets	<u>\$ 653,074</u>	<u>\$ 3,779,228</u>	<u>\$ 2,789</u>	<u>\$ 4,435,091</u>

**CROW WING COUNTY
BRAINERD, MINNESOTA**

**COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2006**

		Program Revenues	
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions
Component Units			
Housing and Redevelopment Authority	\$ 50,698	\$ 20,474	\$ -
Serpent Lake Sanitary Sewer District	354,142	416,000	-
Sanitary Management District	69,964	-	69,964
	\$ 474,804	\$ 436,474	\$ 69,964
Total Component Units	\$ 474,804	\$ 436,474	\$ 69,964

General Revenues and Other Items

Property tax
Investment income
Grants and contributions not restricted
to specific programs

Total general revenues and other items

Change in Net Assets

Net Assets - Beginning, as previously reported
Prior period adjustment (Note 5.B.)

Net Assets - Beginning, as restated

Net Assets - Ending

EXHIBIT 12

Net (Expense) Revenue and Changes in Net Assets			
Housing and Redevelopment Authority	Serpent Lake Sanitary Sewer District	Sanitary Management District	Total
\$ (30,224)	\$ -	\$ -	\$ (30,224)
-	61,858	-	61,858
-	-	-	-
\$ (30,224)	\$ 61,858	\$ -	\$ 31,634
\$ 51,295	\$ -	\$ -	\$ 51,295
36,757	28,957	-	65,714
3,826	-	2,789	6,615
\$ 91,878	\$ 28,957	\$ 2,789	\$ 123,624
\$ 61,654	\$ 90,815	\$ 2,789	\$ 155,258
\$ 828,646	\$ 3,688,413	\$ -	\$ 4,517,059
(237,226)	-	-	(237,226)
\$ 591,420	\$ 3,688,413	\$ -	\$ 4,279,833
\$ 653,074	\$ 3,779,228	\$ 2,789	\$ 4,435,091

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**CROW WING COUNTY
BRAINERD, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006

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, 2006. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so. This financial report has been prepared in conformity with GASB Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, issued in June 1999.

A. Financial Reporting Entity

Crow Wing 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 Crow Wing County (primary government) and its component units for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Auditor, elected on a County-wide basis, serves as the clerk of the Board of Commissioners but has no vote.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Units

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

Component Unit	Component Unit of Reporting Entity	Separate Financial Statements
Crow Wing County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001-.047	County appoints members, and the HRA is a financial burden.	Separate financial statements are not prepared.
Crow Wing County Sanitary Management District	County appoints members, and the District is fiscally dependent on the County.	Separate financial statements are not prepared.
Serpent Lake Sanitary Sewer District is responsible for constructing and operating a sanitary sewer district.	District is fiscally dependent on the County because it may not issue debt without the County's approval. The County has issued debt for the District.	Serpent Lake Sanitary Sewer District P. O. Box 84 Crosby, Minnesota 56441

Joint Ventures

The County participates in several joint ventures described in Note 4.B. The County also participates in jointly-governed organizations described in Note 4.C.

B. Basic Financial Statements

1. Government-Wide Statements

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

**CROW WING COUNTY
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

In the government-wide statement of net assets, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The County's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities and different 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 and discretely presented component units. 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 funds are aggregated and reported as nonmajor funds.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (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.

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund is used to account for all costs for maintenance and construction of streets and highways. Financing comes primarily from an annual property tax levy and intergovernmental revenue from the state and federal governments.

The Human Services Special Revenue Fund is used to account for all costs for human services. Financing comes primarily from an annual property tax levy and intergovernmental revenue from the state and federal governments.

The Land Management Special Revenue Fund is used to account for financial transactions resulting from the management of Crow Wing County's tax-forfeited lands.

The Debt Service Fund is used to account for the accumulation of resources for payment of principal and interest of the general obligation bonds and capital notes.

The Capital Projects Fund is used to account for financial resources to be used for capital acquisition, construction, or improvement of capital facilities.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major enterprise fund:

The Solid Waste Fund is used to account for the operation, maintenance, and development of the County's solid waste landfill.

Additionally, the County reports the following fund types:

The Permanent Fund is used to report resources legally restricted to the extent that only earnings, and not principal from the Environmental Trust Permanent Fund, may be used for environmental purposes.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Crow Wing County considers all revenues as available if collected within 60 days after the end of the current period. Property taxes, special assessments, intergovernmental revenue, 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.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

Crow Wing 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, 2006, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds are credited to the General Fund. Pooled investment earnings for 2006 were \$1,816,968. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants.

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

3. Receivables and Payables

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

**CROW WING COUNTY
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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.”

All receivables, including those of the discretely presented component units, 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 or November 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

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

5. Restricted Assets

Restricted cash represents monies set aside to be used in the future for monitoring and closing County landfills.

Restricted cash in the Serpent Lake Sanitary Sewer District represents monies set aside to be used in the future for plant and equipment replacements and for the accumulation of capital recovery charges to be used to make principal and interest payments on outstanding long-term debt. Interest earned on cash balances is allocated to cash and restricted cash balances.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Capital Assets

Capital assets, which include land, buildings and building improvements, improvements (other than buildings), furniture, equipment, and vehicles, infrastructure assets (roads, bridges, and rights-of-way), and construction in progress are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three 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 the useful life of the asset are not capitalized.

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

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method to allocate the cost on an annual basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30 - 100
Building improvements	7 - 30
Infrastructure	50 - 75
Furniture, equipment, and vehicles	3 - 20
Improvements other than buildings	20 - 30

**CROW WING COUNTY
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Compensated Absences

Compensated absences will be reported for vacation hours and vested sick leave.

Vacation

Vacation hours are accrued by full-time County employees and part-time employees. Vacation time is vested after six months of employment. Under the County's personnel policies and union contracts, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 12 to 25 days per year. The majority of County employees are entitled to carry over a balance of 240 hours (30 days) at the end of each year.

Vacation Severance Pay - Employees leaving County service voluntarily and in good standing and who provide proper advance notice of two weeks are entitled to receive 100 percent of their remaining accrued vacation leave at their current hourly rate.

Vacation Current and Long-Term Compensated Absences - The County estimates that 90 percent of the year-end balances of vacation severance pay compensated absences will be used in the subsequent year (assumes a FIFO methodology), and 10 percent of vacation severance pay compensated absences as of year-end will be used in years two and thereafter.

Sick Leave

Sick leave hours are accrued by all full-time County employees up to 96 hours per year (or one day per month). Sick leave is earned by part-time employees on a prorated basis. Sick leave hours earned can be carried over from year to year and may be accumulated without any limitation.

Sick Leave Severance Pay - Vested sick leave applies only to employees that were hired before January 1, 1986, and who did not select the buy-out option given at that time. Vested sick leave, up to 120 days, is paid upon retirement or, in the event of death, to the beneficiary. Any County employee separating his/her employment with the County will forfeit any accrued sick leave, subject to the one exception above.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Compensated Absences

Sick Leave (Continued)

Sick Leave Current and Long-Term Compensated Absences - Sick leave severance pay compensated absences are treated as current for employees that have met Public Employees Retirement Association of Minnesota (PERA) eligibility requirements for retirement in the subsequent year and long-term for employees who will not have met PERA eligibility requirements in the subsequent year.

8. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

9. Long-Term Obligations

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

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

**CROW WING COUNTY
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Fund Equity

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

11. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 such estimates.

E. Revenues

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs. The modified accrual basis of accounting is used by all governmental fund types. Under this basis, revenue is not recognized in the financial statements unless it is available to finance current expenditures.

Imposed Nonexchange Transactions

Imposed nonexchange transactions result from assessments by governments on nongovernmental entities and individuals. Property taxes, fines and penalties, and property forfeitures are imposed nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes were levied, to the extent they are collected in the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes receivable but not available are reported as deferred revenue and will be recognized as revenue in the fiscal year that they become available. Fines and penalties and property forfeitures are recognized in the period received.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues (Continued)

Intergovernmental

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and also may establish time requirements. Federal and state grants mandating the County perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when eligibility and time requirements are met, usually when the corresponding expenditure is incurred.

Voluntary nonexchange transactions result from legislative or contractual agreements, such as grants, entitlements, appropriations, and donations. The provider may establish purpose restrictions or eligibility requirements. Revenues are recognized in the year to which they apply according to the statute or contract. Gifts and contributions from individuals are also considered voluntary nonexchange transactions and are generally recognized when received.

Tax credits paid by the state are included in intergovernmental revenues and are recognized as revenue in the fiscal year that they become available. Subject to the availability criterion, state-aid highway allotments for highway maintenance and construction are recognized as revenue in the year of allotment.

Exchange Transactions

Special assessments levied against benefiting properties are recognized under the modified accrual basis when available to finance current expenditures. Other revenues, such as licenses and permits, charges for services, and investment income, are recognized as revenue when earned.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

The purpose of establishing an operating budget is to ensure the County's annual operating expenditures are based on a stable stream of revenues.

The County follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Between June and August of each year, the County Administrator and Auditor's Office staff provides all department heads with budget worksheets. Department heads prepare a proposed operating budget and return the worksheets for review. The County Administrator and Auditor's Office staff meets with department heads and accepts proposed budget workpapers.
2. On or before September 15, the County Administrator submits to the County Board of Commissioners a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
3. In December, public meetings or hearings are conducted in accordance with the state truth-in-taxation statutes to obtain taxpayer comments and adopt the final tax levy and budgets for the General Fund, certain special revenue funds, the Solid Waste Enterprise Fund, and the Debt Service Fund.
4. Revisions that alter the budgeted revenues or expenditures of any fund must be approved by the Board of Commissioners.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, special revenue funds, the Debt Service Fund, and the Solid Waste Enterprise Fund.
6. Budgets are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts will be reported as originally adopted and as amended by the Board of Commissioners on the budget to actual financial statements.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Budgetary Information (Continued)

7. Operating budgets are prepared for the following funds: Governmental--General, Road and Bridge (special revenue), Human Services (special revenue), SCORE (special revenue), County Building (special revenue), Unorganized Townships (special revenue), Land Management (special revenue), Extension Grants (special revenue), Debt Service, Housing and Redevelopment Authority (HRA) (discretely presented component unit), Serpent Lake Sanitary Sewer District (discretely presented component unit), and Enterprise--Solid Waste (proprietary).

B. Excess of Expenditures Over Budget

The following is a summary of the individual funds with expenditures in excess of final budget for the year ended December 31, 2006.

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Special Revenue Funds			
Human Services	\$ 18,658,373	\$ 18,116,378	\$ 541,995
Land Management	1,500,984	1,144,599	356,385
Debt Service	5,650,476	5,649,922	554
County Building	386,119	121,425	264,694
Unorganized Townships	687,211	406,345	280,866
Extension Grants	32,415	31,000	1,415

**CROW WING COUNTY
BRAINERD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 35,355,612
Petty cash and change funds	3,165
Investments	2,048,452
Business-type activities	
Cash and pooled investments	6,170,385
Cash and pooled investments - restricted assets	4,108,867
Discretely presented component units	
Cash and pooled investments	493,228
Cash and pooled investments - restricted assets	712,850
Cash overdraft	(17,717)
Statement of fiduciary net assets	
Cash and pooled investments	4,581,284
Petty cash and change fund	150
Total Cash and Investments	\$ 53,456,276

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all County deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest 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 that is not owned or controlled by the financial institution furnishing the collateral.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2006, the County's deposits were not exposed to custodial credit risk.

b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

**CROW WING COUNTY
BRAINERD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

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

**CROW WING COUNTY
BRAINERD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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.

The following table presents the County's investment balances at December 31, 2006, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration	Interest	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Rate Risk Maturity Date	
U.S. government agency securities					
Federal National Mortgage Association Global Benchmark Notes	AAA	S&P		02/15/07	\$ 293,985
Federal National Mortgage Association Global Benchmark Notes	AAA	S&P		11/15/07	196,626
Federal National Mortgage Association Global Benchmark Notes	AAA	S&P		01/15/08	196,126
Federal National Mortgage Association Global Benchmark Notes	AAA	S&P		06/15/08	144,609
Total Federal National Mortgage Association			40.6%		<u>\$ 831,346</u>
Federal Home Loan Mortgage Corporation					
Global Reference Notes	AAA	S&P		09/15/07	\$ 197,688
Global Reference Notes	AAA	S&P		03/15/08	218,743
Total Federal Home Loan Mortgage Corporation			20.3%		<u>\$ 416,431</u>
Federal Home Loan Bank Tap Notes	AAA	S&P	33.5%	08/15/08	<u>\$ 685,783</u>
Bonds					
Series E Bonds					<u>\$ 22,291</u>

**CROW WING COUNTY
BRAINERD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 92,601
Total investments					\$ 2,048,452
Deposits					51,404,509
Petty cash					3,315
Total Cash and Investments					<u>\$ 53,456,276</u>

N/R - Not Rated

N/A - Not Applicable

S&P - Standards and Poor's

2. Receivables

Governmental funds report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Deferred Unavailable	Deferred Unearned
Delinquent property taxes receivable	\$ 824,765	\$ -
Contracts receivable	1,085,944	-
Charges for services	24,531	-
Grants receivable that do not provide current financial resources	1,160,775	-
Advance on SCORE Grant	-	66,593
Total Deferred Revenue for Governmental Funds	<u>\$ 3,096,015</u>	<u>\$ 66,593</u>

**CROW WING COUNTY
BRAINERD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 2,855,963	\$ 292,891	\$ -	\$ 3,148,854
Construction in progress	43,004,418	10,628,585	35,095,938	18,537,065
Infrastructure - right-of-way	1,692,952	109,413	-	1,802,365
Total capital assets not depreciated	<u>\$ 47,553,333</u>	<u>\$ 11,030,889</u>	<u>\$ 35,095,938</u>	<u>\$ 23,488,284</u>
Capital assets depreciated				
Buildings	\$ 15,762,562	\$ 31,662,410	\$ 71,189	\$ 47,353,783
Land improvements	-	1,978,613	-	1,978,613
Machinery, furniture, and equipment	9,228,714	2,542,577	381,159	11,390,132
Infrastructure	70,483,486	4,725,052	-	75,208,538
Total capital assets depreciated	<u>\$ 95,474,762</u>	<u>\$ 40,908,652</u>	<u>\$ 452,348</u>	<u>\$ 135,931,066</u>
Less: accumulated depreciation for				
Buildings	\$ 6,716,535	\$ 268,371	\$ 26,603	\$ 6,958,303
Machinery, furniture, and equipment	6,084,747	931,324	368,986	6,647,085
Infrastructure	12,899,567	1,452,807	-	14,352,374
Total accumulated depreciation	<u>\$ 25,700,849</u>	<u>\$ 2,652,502</u>	<u>\$ 395,589</u>	<u>\$ 27,957,762</u>
Total capital assets depreciated, net	<u>\$ 69,773,913</u>	<u>\$ 38,256,150</u>	<u>\$ 56,759</u>	<u>\$ 107,973,304</u>
Governmental Activities Capital Assets, Net	<u>\$ 117,327,246</u>	<u>\$ 49,287,039</u>	<u>\$ 35,152,697</u>	<u>\$ 131,461,588</u>

**CROW WING COUNTY
BRAINERD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Construction in progress	\$ -	\$ 406,087	\$ -	\$ 406,087
Land	-	412,334	-	412,334
Total capital assets not depreciated	<u>\$ -</u>	<u>\$ 818,421</u>	<u>\$ -</u>	<u>\$ 818,421</u>
Capital assets depreciated				
Buildings	\$ 775,898	\$ -	\$ -	\$ 775,898
Landfill	8,140,179	-	-	8,140,179
Machinery, furniture, and equipment	215,677	44,780	-	260,457
Total capital assets depreciated	<u>\$ 9,131,754</u>	<u>\$ 44,780</u>	<u>\$ -</u>	<u>\$ 9,176,534</u>
Less: accumulated depreciation for				
Buildings	\$ 53,634	\$ 24,864	\$ -	\$ 78,498
Landfill	6,728,012	310,933	-	7,038,945
Machinery, furniture, and equipment	144,008	11,497	-	155,505
Total accumulated depreciation	<u>\$ 6,925,654</u>	<u>\$ 347,294</u>	<u>\$ -</u>	<u>\$ 7,272,948</u>
Total capital assets depreciated, net	<u>\$ 2,206,100</u>	<u>\$ (302,514)</u>	<u>\$ -</u>	<u>\$ 1,903,586</u>
Business-Type Activities				
Capital Assets, Net	<u>\$ 2,206,100</u>	<u>\$ 515,907</u>	<u>\$ -</u>	<u>\$ 2,722,007</u>

Depreciation expense for 2006 was charged to functions of the primary government as follows:

Governmental Activities	
General government	\$ 231,872
Public safety	456,671
Highways and streets, including depreciation of infrastructure assets	1,860,416
Human services	56,151
Health	6,541
Culture and recreation	14,426
Conservation of natural resources	26,425
Total Depreciation Expense - Governmental Activities	<u>\$ 2,652,502</u>

**CROW WING COUNTY
BRAINERD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities		\$	347,294
Solid waste			

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2006, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Extension Grants Building Road and Bridge Human Services Land Management	\$ 376 19,738 500,000 4,006 350,545
Total Due to General Fund		\$ 874,665
Road and Bridge	General Human Services Land Management SCORE	\$ 36,052 1,695 736 1,547
Total Due to Road and Bridge Fund		\$ 40,030
County Building	Land Management	\$ 338,762
Solid Waste	Land Management Road and Bridge SCORE	\$ 51 26 207
Total Due to Solid Waste Fund		\$ 284
Total Due To/From Other Funds		\$ 1,253,741

Balances at year-end are indicative of lending/borrowing arrangements or are receivable/payable for goods or services.

**CROW WING COUNTY
BRAINERD, 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, 2006, consisted of the following:

Transfers to Building Fund from SCORE Fund	\$ 328,145	Returned funding
Transfers to Capital Projects Fund from SCORE Fund	269,051	Returned interest
Transfers to Capital Projects Fund from Building Fund	<u>4,532,755</u>	Building project funding
Total Interfund Transfers	<u>\$ 5,129,951</u>	

C. Liabilities

1. Other Postemployment Benefits - Retirees

Crow Wing County provides postretirement health benefits for certain retirees and their surviving spouses. The benefits vary depending on the years of service of the retiree. The government pays 100 percent of health premiums for employees who retire with 25 years of continuous service. The County pays 67 percent of these premiums for employees who retire with 15 to 24 years of continuous service and 33 percent of these premiums for employees with 7 to 14 years of continuous service. The County's regular health benefit provider underwrites the retirees' policies. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans.

As of year-end 2006, 57 employees had retired with 25 or more years of continuous service and were receiving the 100 percent premium coverage benefit. Thirty-three employees had retired with 15 to 24 years of continuous service and were receiving the 67 percent premium coverage benefit. Two employees had retired with 7 to 14 years of continuous service and were receiving the 33 percent premium coverage benefit. The County finances the plan on a pay-as-you-go basis. For the year ended December 31, 2006, the County recognized \$871,111 of expenditures.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits - Retirees (Continued)

Additionally, the County also contributes to those retired employees and their spouses who elect to take Medicare supplement policies. At year-end 2006, 11 employees with 15 to 24 years of continuous service were receiving the 67 percent premium coverage benefits. Seven employees had retired with 7 to 14 years of continuous service and were receiving the 33 percent premium coverage benefit. The County finances the plan on a pay-as-you-go basis. For the year ended December 31, 2006, the County recognized \$38,599 of Medicare supplement premium expenditures.

Therefore, for the year ended December 31, 2006, the County recognized \$909,710 in postretiree health benefit expenditures in total.

2. Construction Commitments

The County has active construction projects as of December 31, 2006. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
County facilities	\$ 54,401,001	\$ 2,591,896

3. Leases

Operating Leases

The County leases office and storage facilities under operating leases. Total costs for such leases were \$42,500 for the year ended December 31, 2006. The future minimum lease payments for storage facilities leases are \$10,554, due in 2007. In 2006, the County stopped leasing office space as the Highway Department building project finished.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Leases (Continued)

Capital Leases

Crow Wing County has entered into a sub-lease with the City of Crosslake for financing a joint public works facility (County's share in equity - 53 percent). This sub-lease agreement qualifies as a capital lease for accounting purposes and, therefore, was recorded at the present value of the future minimum lease payments as of the inception date. The present value of the building at the inception date was \$1,688,050. It is recorded as a governmental activity.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2006, were as follows:

Year Ending December 31	Governmental Activities
2007	\$ 116,099
2008	117,179
2009	115,401
2010	116,126
2011	116,610
2012 - 2016	601,191
2017 - 2021	627,186
2022 - 2024	391,206
Total minimum lease payments	\$ 2,200,998
Less: amount representing interest	(671,948)
Present Value of Minimum Lease Payments	\$ 1,529,050

**CROW WING COUNTY
BRAINERD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. 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, 2006</u>
General obligation bonds and notes					
2006A G.O. Capital Notes	2010	\$995,000 - \$1,130,000	4.00 - 4.13	\$ 3,210,000	\$ 3,210,000
2004A G.O. Capital Improvement Plan Bonds	2025	\$1,195,000 - \$2,375,000	3.00 - 5.00	32,860,000	31,665,000
2004B G.O. County Jail Bonds	2025	\$660,000 - \$1,310,000	2.50 - 5.00	18,110,000	17,450,000
2003A G.O. Capital Notes	2007	\$805,000 - \$835,000	2.00	2,460,000	835,000
2002A G.O. Airport Improvement Bonds	2022	\$35,000 - \$200,000	3.50 - 5.00	<u>2,500,000</u>	<u>2,175,000</u>
Total General Obligation Bonds and Notes				<u>\$ 59,140,000</u>	<u>\$ 55,335,000</u>
1999A Facility Lease Revenue Bonds	2014	\$165,000 - \$450,000	4.00 - 5.05	<u>\$ 4,625,000</u>	<u>\$ 2,730,000</u>
1997 Certificates of Participation	2007	\$50,000 - \$75,000	5.00 - 5.50	<u>\$ 630,000</u>	<u>\$ 75,000</u>

**CROW WING COUNTY
BRAINERD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Debt Service Requirements

Debt service requirements at December 31, 2006, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		Certificates of Participation		Facility Lease Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 2,720,000	\$ 2,402,267	\$ 75,000	\$ 4,125	\$ -	\$ 66,294
2008	3,020,000	2,353,314	-	-	335,000	124,799
2009	3,165,000	2,229,626	-	-	350,000	108,785
2010	3,260,000	2,098,407	-	-	370,000	91,772
2011	2,195,000	1,984,713	-	-	390,000	73,528
2012 - 2016	12,175,000	8,412,079	-	-	1,285,000	98,985
2017 - 2021	14,870,000	5,346,772	-	-	-	-
2022 - 2026	13,930,000	1,418,750	-	-	-	-
Total	\$ 55,335,000	\$ 26,245,928	\$ 75,000	\$ 4,125	\$ 2,730,000	\$ 564,163

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 54,900,000	\$ 3,210,000	\$ 2,775,000	\$ 55,335,000	\$ 2,720,000
Certificates of participation	150,000	-	75,000	75,000	75,000
Facility lease revenue bonds	3,050,000	-	320,000	2,730,000	-
Plus: deferred amounts for issuance premiums (discounts)	227,580	6,069	19,332	214,317	13,037
Total bonds payable	\$ 58,327,580	\$ 3,216,069	\$ 3,189,332	\$ 58,354,317	\$ 2,808,037
Capital lease	1,582,050	-	53,000	1,529,050	55,650
Compensated absences	1,844,067	948,889	1,045,867	1,747,089	1,352,299
Governmental Activities Long-Term Liabilities	\$ 61,753,697	\$ 4,164,958	\$ 4,288,199	\$ 61,630,456	\$ 4,215,986

**CROW WING COUNTY
BRAINERD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure and postclosure	\$ 1,242,465	\$ 446,661	\$ -	\$ 1,689,126	\$ -
Compensated absences	9,276	3,865	2,118	11,023	9,921
Business-Type Activities Long-Term Liabilities	<u>\$ 1,251,741</u>	<u>\$ 450,526</u>	<u>\$ 2,118</u>	<u>\$ 1,700,149</u>	<u>\$ 9,921</u>

Bonded debt is paid from the Debt Service Fund. Compensated absences are paid from the General Fund and the Road and Bridge, Human Services, Land Management, and SCORE Special Revenue Funds.

7. Employee Retirement Systems and Pension Plans

a. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Crow Wing County are covered by defined benefit pension plans administered by PERA. The PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

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

**CROW WING COUNTY
BRAINERD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Employee Retirement Systems and Pension Plans

a. Defined Benefit Plans

Plan Description (Continued)

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

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

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

**CROW WING COUNTY
BRAINERD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Employee Retirement Systems and Pension Plans

a. Defined Benefit Plans

Plan Description (Continued)

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.

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. Public Employees Police and Fire Fund members were required to contribute 7.00 percent of their annual covered salary in 2006. That rate increased to 7.80 percent in 2007. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Employee Retirement Systems and Pension Plans

a. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2006 and 2007:

	2006	2007
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.00	6.25
Public Employees Police and Fire Fund	10.50	11.70
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2006, 2005, and 2004, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2006	\$ 908,519	\$ 228,190	\$ 151,355
2005	884,598	181,459	178,444
2004	860,482	167,891	163,929

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

**CROW WING COUNTY
BRAINERD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Employee Retirement Systems and Pension Plans (Continued)

b. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D. 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. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer.

No vesting period is required to receive benefits in the Defined Contribution Plan. At the time of retirement or termination, the market value of the member's account is distributed to the member or another qualified plan.

The County's contributions for the years ending December 31, 2006, 2005, and 2004, were \$4,610, \$4,624, and \$4,630, respectively, equal to the contractually required contributions for each year as set by state statute.

8. Solid Waste Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 20 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,689,126 landfill closure and postclosure care liability at December 31, 2006, represents the cumulative amount reported to date

**CROW WING COUNTY
BRAINERD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

8. Solid Waste Landfill Closure and Postclosure Care Costs (Continued)

based on the use of 49.0 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$2,179,075 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2006. The County expects to close the landfill in 2017. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Board is in compliance with these requirements and, at December 31, 2006, investments of \$4,108,867 are held for these purposes. These are reported as restricted assets on the Solid Waste Enterprise Fund's statement of net assets. Crow Wing County expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

9. Risk Management

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

**CROW WING COUNTY
BRAINERD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

9. Risk Management (Continued)

Association with coverage at \$390,000 per claim in 2006 and \$400,000 per claim in 2007. 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.

4. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

The County, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The County Attorney estimates that the potential claims resulting from such litigation and not covered by insurance would not materially affect the financial statements of the County.

B. Joint Ventures

Brainerd-Crow Wing Airport

Crow Wing County and the City of Brainerd have an agreement whereby each contributes equally to all locally financed costs of the operation of the Brainerd-Crow Wing County Airport. An Airport Commission is responsible for operations, and the City of Brainerd provides accounting services. Any appropriation by the County for the Airport Commission is recorded as an expenditure in the year it is approved by the County Board of Commissioners. On June 11, 2002, the County issued \$2,500,000 in General Obligation Airport Improvement Bonds, Series 2002A, to finance improvements to the airport. The interest rates vary from 3.5 to 5.0 percent. The maturity date starts July 1, 2002, and ends on July 1, 2022. In 2006, the County made an appropriation of \$142,300 for the Airport Commission. The airport does not publish separate financial statements.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Brainerd-Crow Wing Airport (Continued)

Investment in the joint venture on the statement of net assets is the County's 50 percent undivided interest in the property, improvements, buildings, and infrastructure of the airport, valued at \$14,088,537 on December 31, 2006.

Complete financial statements of the City of Brainerd can be obtained from:

Brainerd City Hall
502 Laurel Street
Brainerd, Minnesota 56401

Central Minnesota Community Corrections Agency

A joint community corrections agency was established in 1974, pursuant to Minn. Stat. § 471.59, between Crow Wing and Morrison Counties. Aitkin County joined the Agency on January 1, 1992, to form the Central Minnesota Community Corrections Agency. The Agency provides detention and correction services to adults and juveniles under the jurisdiction of the counties, which are parties to the agreement, any other Minnesota county that requests these services, and the Minnesota Department of Corrections. The governing board is composed of five County Commissioners from each of the participating counties. Crow Wing County maintains the accounting records of the Agency.

At December 31, 2005, the Agency had net assets of \$472,441. In 2005, there was an increase in net assets of \$66,754.

At December 31, 2006, the Agency had net assets of \$488,707. In 2006, there was an increase in net assets of \$16,266.

The Central Minnesota Community Corrections Agency is funded through state grants and contributions from its member counties. Crow Wing County had expenditures of \$314,178 for community corrections to the Agency for 2006.

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.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Central Minnesota Community Corrections Agency (Continued)

Complete financial information can be obtained from:

Central Minnesota Community Corrections Agency
c/o Michael J. Kafka, Director
324 South 5th Street
Brainerd, Minnesota 56401

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 Minn. Stat. § 471.59. The purpose of the Board is to prepare, adopt, and implement a comprehensive land use plan design to protect and enhance the Mississippi River and related shoreland areas within the counties.

The Board consists of eight members, one appointed from each participating county. Cass County maintains the accounting records of the Board. Funding consists of federal, state, and local grants; donations; and contributions from each county.

Financial information can be obtained from:

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

**CROW WING COUNTY
BRAINERD, MINNESOTA**

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

C. Jointly-Governed Organizations

Crow Wing County, in conjunction with other local governmental entities and various private organizations, has formed the jointly-governed organizations listed below:

Crow Wing County Family Service Collaborative

The Crow Wing County Family Service Collaborative was established to provide leadership and facilitation to families, youth, and providers. The goal of the Collaborative is to improve and redesign the local service delivery system in a way which improves the quality of lives, supports choices, and promotes self-reliance. Crow Wing County Social Services is the fiscal agent of the Collaborative. Crow Wing County has no operational or financial control over the Collaborative.

Separate financial information can be obtained from:

Crow Wing County Family Service Collaborative
P. O. Box 686
322 Laurel Street
Brainerd, Minnesota 56401

Kitchigami Regional Library

The Kitchigami Regional Library was formed pursuant to Minn. Stat. § 134.20, effective January 1, 1992, and includes Beltrami, Cass, Crow Wing, Hubbard, and Wadena Counties, and nine separate cities. Control of the Library is vested in the Kitchigami Regional Library Board, which is composed of 19 members with three-year terms made up of the following: one member appointed by each City Council and two members appointed by each County Board consisting of one County Commissioner and one lay person. Crow Wing County appropriated \$470,319 to the Library for the year ended December 31, 2006.

D. Subsequent Events

South Country Health Alliance (SCHA) is a group of 14 counties. These counties are Brown, Cass, Crow Wing, Dodge, Freeborn, Goodhue, Kanabec, Morrison, Sibley, Steele, Todd, Wabasha, Wadena, and Waseca. SCHA is a county-owned health plan, offering six programs to meet the needs of individuals in the member counties.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Subsequent Events (Continued)

Crow Wing County became a new member in the SCHA as of January 1, 2007. The investment in this joint venture is \$2,832,110 and was paid in whole on January 1, 2007, from the fund balance of the Human Service Special Revenue Fund.

5. Component Unit Disclosures

A. Summary of Significant Accounting Policies

In addition to those identified in Note 1, the County's discretely presented component units have the following significant accounting policies.

Reporting Entities

The Crow Wing County Housing and Redevelopment Authority (HRA) is governed by a five-member Board of Directors who are appointed by the Crow Wing County Board. The HRA receives tax increment financing from the districts within the County. The diversion of the incremental property taxes to the HRA by the County is a financial burden on the County.

The Crow Wing County Sanitary Management District is governed by a nine-member Board appointed by the Crow Wing County Board. The District Board represents the five commissioner districts, Thirty Lakes Watershed District, the City of Crosslake, one Crow Wing County at-large member, and one County Commissioner. The District is fiscally dependant on the County.

The Serpent Lake Sanitary Sewer District is governed by an eight-member Board of Directors, two members appointed by each of the Cities of Crosby, Cuyuna, Deerwood, and Ironton. The District is fiscally dependent on the County because it may not issue debt without the County's approval. The County has issued debt for the District.

Because of the significance of their financial relationships, Crow Wing County considers these entities major component units.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

5. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

The Crow Wing County HRA and Crow Wing County Sanitary Management District do not prepare separate financial statements. Complete financial statements of the Serpent Lake Sanitary Sewer District may be obtained from:

Serpent Lake Sanitary Sewer District
P. O. Box 84
Crosby, Minnesota 56441

Basis of Accounting

The Crow Wing County HRA and Crow Wing County Sanitary Management District funds are accounted for on the modified accrual basis of accounting. The Serpent Lake Sanitary Sewer District uses the accrual basis of accounting.

Cash and Pooled Investments

All cash of the Crow Wing County HRA is on deposit with the Crow Wing County Treasurer and included within its pooled cash and investments.

Cash and pooled investments for the Serpent Lake Sanitary Sewer District are defined as short-term, highly liquid investments with original maturities of 90 days or less. The District has certificates of deposit classified as cash equivalents at December 31, 2006.

B. Prior Period Adjustments

In 2003, there was an agreement between Crow Wing County, the Crow Wing County HRA, and the Pequot Lakes HRA. The Crow Wing County HRA issued \$1,280,000 in bonds. The bonds were issued so that the Pequot Lakes HRA could build a project for senior housing. Even though the debt was issued by the County HRA, Pequot Lakes was liable for making the debt payments. If the Pequot Lakes HRA fails to pay, the County HRA would be liable. If the County HRA failed to pay, Crow Wing County would be liable. In the prior year, the liability was recorded as a liability of the Crow Wing County HRA.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

5. Component Unit Disclosures

B. Prior Period Adjustments (Continued)

Instead, in 2006, a prior period adjustment was done to remove the activity from the Crow Wing County HRA statements.

The prior period adjustment reduces Crow Wing County HRA's net assets by \$237,226 from \$828,646 to \$591,420.

C. Detailed Notes

1. Assets

Cash and Investments - Serpent Lake Sanitary Sewer District

In accordance with Minnesota statutes, the Serpent Lake Sanitary Sewer District maintains deposits at financial institutions which are authorized by the Board of Directors. All such depositories are members of the Federal Reserve System.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk and follows Minnesota statutes for deposits.

Minnesota statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposit not covered by insurance or corporate surety bonds.

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

The District's deposits in banks at December 31, 2006, were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

5. Component Unit Disclosures

C. Detailed Notes

1. Assets

Cash and Investments - Serpent Lake Sanitary Sewer District (Continued)

The District does not have an investment policy.

At December 31, 2006, the District had no investments.

Capital Assets - Serpent Lake Sanitary Sewer District

A summary of capital asset activity for the year ended December 31, 2006, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Land	\$ 35,000	\$ -	\$ -	\$ 35,000
Plant and improvements	5,962,795	7,091	-	5,969,886
Equipment/vehicles	<u>3,552</u>	<u>45,756</u>	<u>-</u>	<u>49,308</u>
Total	\$ 6,001,347	\$ 52,847	\$ -	\$ 6,054,194
Less: accumulated depreciation	<u>(2,554,072)</u>	<u>(167,960)</u>	<u>-</u>	<u>(2,722,032)</u>
Net Capital Assets	<u>\$ 3,447,275</u>	<u>\$ (115,113)</u>	<u>\$ -</u>	<u>\$ 3,332,162</u>

Depreciation expense of \$167,960 was charged to the Serpent Lake Sanitary Sewer District.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

5. Component Unit Disclosures

C. Detailed Notes (Continued)

2. Liabilities

Long-Term Debt

Long-term debt outstanding at December 31, 2006, for the Serpent Lake Sanitary Sewer District and the Crow Wing County HRA consists of the following:

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
Serpent Lake Sanitary Sewer District					
General obligation bonds -					
refunding			1.10 -		
2003B G.O. Refunding Bonds	2009	\$95,000 - \$145,000	2.20	\$ 925,000	\$ 430,000
Housing and Redevelopment Authority					
Tax Increment Financing (TIF) Notes					
1996 Housing Redevelopment Authority TIF Notes	2015	\$2,006 - \$8,205	9.00	71,500	51,185

Debt Service Requirements

Revenue note debt service requirements to maturity for the Serpent Lake Sanitary Sewer District and the Crow Wing County HRA are as follows:

Year Ending December 31	Serpent Lake Sanitary Sewer District		Housing and Redevelopment Authority	
	Principal	Interest	Principal	Interest
2007	\$ 140,000	\$ 8,540	\$ 4,431	\$ 4,509
2008	145,000	6,090	4,838	4,102
2009	145,000	3,190	5,284	3,656
2010	-	-	5,769	3,171
2011	-	-	6,301	2,639
2012 - 2016	-	-	24,562	4,308
Total	\$ 430,000	\$ 17,820	\$ 51,185	\$ 22,385

**CROW WING COUNTY
BRAINERD, MINNESOTA**

5. Component Unit Disclosures

C. Detailed Notes

2. Liabilities (Continued)

Changes in Long-Term Liabilities

The following is a summary of the long-term debt transactions of the Serpent Lake Sanitary Sewer District and the Crow Wing County HRA for the year ended December 31, 2006.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
Serpent Lake Sanitary Sewer District					
General obligation bond - refunding	\$ 565,000	\$ -	\$ 135,000	\$ 430,000	\$ 140,000
Deferred - issuance discounts	(2,787)	-	(711)	(2,076)	-
	<u>\$ 562,213</u>	<u>\$ -</u>	<u>\$ 134,289</u>	<u>\$ 427,924</u>	<u>\$ 140,000</u>
 Housing and Redevelopment Authority					
Tax Increment Financing Notes	\$ 55,243	\$ -	\$ 4,058	\$ 51,185	\$ 4,431

Conduit Debt

The Crow Wing County HRA has issued General Obligation Housing Revenue Bonds on behalf of the Pequot Lakes HRA to finance the construction of an eight-unit senior rental housing development project located in the City of Pequot Lakes. The bonds are payable from the revenues of the housing project. In addition, the Pequot Lakes HRA has pledged to make a special levy to provide funds to pay principal and interest on the bonds if the revenues of the housing project are insufficient. The Crow Wing County HRA has no obligation; therefore, the bonds are not reported as liabilities in the accompanying financial statements.

The conduit bonds have an outstanding principal balances of \$1,280,000 at December 31, 2006

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REQUIRED SUPPLEMENTARY INFORMATION

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**CROW WING COUNTY
BRAINERD, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 16,935,330	\$ 16,935,330	\$ 15,607,013	\$ (1,328,317)
Licenses and permits	796,960	796,960	826,959	29,999
Intergovernmental	3,278,944	3,332,381	4,966,917	1,634,536
Charges for services	2,786,946	2,786,946	2,502,726	(284,220)
Fines and forfeits	-	-	26,203	26,203
Gifts and contributions	13,000	13,000	25,566	12,566
Investment earnings	1,000,000	1,000,000	1,816,968	816,968
Miscellaneous	726,529	726,529	1,061,323	334,794
Total Revenues	\$ 25,537,709	\$ 25,591,146	\$ 26,833,675	\$ 1,242,529
Expenditures				
Current				
General government				
Commissioners	\$ 203,017	\$ 204,803	\$ 208,164	\$ (3,361)
Courts	118,427	118,427	218,776	(100,349)
Human resources	112,792	112,792	81,238	31,554
County auditor	1,468,121	1,472,520	1,314,955	157,565
County treasurer	322,398	323,833	307,193	16,640
County assessor	1,135,456	1,137,564	1,049,880	87,684
Elections	721,727	722,197	650,209	71,988
Purchasing	106,938	107,531	108,583	(1,052)
Information systems	759,825	703,996	611,879	92,117
Central administration	1,303,936	1,357,373	1,230,820	126,553
Attorney	1,370,904	1,358,880	1,389,944	(31,064)
Law library	90,800	90,800	77,273	13,527
Recorder	521,720	522,502	525,567	(3,065)
Surveyor	335,323	336,111	482,430	(146,319)
Planning and zoning	907,731	909,816	860,688	49,128
Facilities	1,484,032	1,505,711	1,452,319	53,392
Veterans service	237,270	237,983	201,890	36,093
Incidental	170,200	170,200	185,992	(15,792)
Appropriations	243,568	243,568	243,568	-
GIS	-	56,714	32,598	24,116
County administrator	183,748	185,649	175,361	10,288
Administration to board	66,577	66,577	64,323	2,254
County transit appropriation	43,166	43,166	31,985	11,181
Other general government	167,393	-	-	-
Total general government	\$ 12,075,069	\$ 11,988,713	\$ 11,505,635	\$ 483,078

**CROW WING COUNTY
BRAINERD, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<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	\$ 4,901,317	\$ 4,948,662	\$ 5,191,097	\$ (242,435)
Dog ordinance	75,000	75,000	66,384	8,616
Boat and water safety	213,086	215,187	153,091	62,096
Coroner	157,473	157,473	164,778	(7,305)
E-911 system	173,000	173,000	202,155	(29,155)
County jail	3,489,651	3,559,392	3,405,345	154,047
Juvenile detention	432,000	432,000	407,094	24,906
Sentence to serve	67,500	67,500	67,789	(289)
Corrections	251,085	251,085	251,086	(1)
CWC tower	9,075	9,075	7,464	1,611
Mining inspector	3,225	3,225	5	3,220
Emergency management	144,152	144,874	112,130	32,744
Sheriff's contingent	2,000	2,000	1,657	343
Appropriations	2,500	2,500	2,500	-
Total public safety	<u>\$ 9,921,064</u>	<u>\$ 10,040,973</u>	<u>\$ 10,032,575</u>	<u>\$ 8,398</u>
Health				
Health	<u>\$ 2,003,426</u>	<u>\$ 2,022,003</u>	<u>\$ 1,775,457</u>	<u>\$ 246,546</u>
Culture and recreation				
Parks	\$ 302,097	\$ 318,935	\$ 287,450	\$ 31,485
County/regional library	470,319	470,319	470,319	-
Appropriations	50,000	50,000	50,000	-
Total culture and recreation	<u>\$ 822,416</u>	<u>\$ 839,254</u>	<u>\$ 807,769</u>	<u>\$ 31,485</u>
Conservation of natural resources				
County extension	\$ 122,758	\$ 122,758	\$ 104,012	\$ 18,746
Weed control	31,556	31,725	26,274	5,451
Appropriations	120,580	120,580	123,080	(2,500)
Total conservation of natural resources	<u>\$ 274,894</u>	<u>\$ 275,063</u>	<u>\$ 253,366</u>	<u>\$ 21,697</u>
Total Expenditures	<u>\$ 25,096,869</u>	<u>\$ 25,166,006</u>	<u>\$ 24,374,802</u>	<u>\$ 791,204</u>

**CROW WING COUNTY
BRAINERD, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess of Revenues Over (Under) Expenditures	\$ 440,840	\$ 425,140	\$ 2,458,873	\$ 2,033,733
Fund Balance - January 1	<u>10,431,383</u>	<u>10,431,383</u>	<u>10,431,383</u>	-
Fund Balance - December 31	<u><u>\$ 10,872,223</u></u>	<u><u>\$ 10,856,523</u></u>	<u><u>\$ 12,890,256</u></u>	<u><u>\$ 2,033,733</u></u>

**CROW WING COUNTY
BRAINERD, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,421,967	\$ 2,421,967	\$ 2,392,209	\$ (29,758)
Intergovernmental	4,696,207	4,696,207	4,441,743	(254,464)
Charges for services	790,650	790,650	1,134,587	343,937
Miscellaneous	10,000	10,000	83,662	73,662
Total Revenues	\$ 7,918,824	\$ 7,918,824	\$ 8,052,201	\$ 133,377
Expenditures				
Current				
Highways and streets				
Administration	\$ 1,115,363	\$ 1,115,363	\$ 815,472	\$ 299,891
Maintenance	1,699,422	1,699,422	1,548,901	150,521
Construction	4,515,231	4,515,231	3,558,945	956,286
Equipment maintenance and shop	1,291,308	1,291,308	1,279,034	12,274
Total highways and streets	\$ 8,621,324	\$ 8,621,324	\$ 7,202,352	\$ 1,418,972
Debt service				
Principal	\$ -	\$ -	\$ 53,000	\$ (53,000)
Interest	-	-	61,807	(61,807)
Total debt service	\$ -	\$ -	\$ 114,807	\$ (114,807)
Total Expenditures	\$ 8,621,324	\$ 8,621,324	\$ 7,317,159	\$ 1,304,165
Excess of Revenues Over (Under) Expenditures	\$ (702,500)	\$ (702,500)	\$ 735,042	\$ 1,437,542
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	2,500	2,500	157	(2,343)
Change in Fund Balance	\$ (700,000)	\$ (700,000)	\$ 735,199	\$ 1,435,199
Fund Balance - January 1	39,440	39,440	39,440	-
Increase (decrease) in reserved for inventories	-	-	144,491	144,491
Fund Balance - December 31	\$ (660,560)	\$ (660,560)	\$ 919,130	\$ 1,579,690

**CROW WING COUNTY
BRAINERD, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 6,456,204	\$ 6,456,204	\$ 6,058,043	\$ (398,161)
Intergovernmental	10,694,661	10,694,661	11,216,803	522,142
Charges for services	48,000	48,000	70,470	22,470
Miscellaneous	917,513	917,513	1,257,612	340,099
Total Revenues	\$ 18,116,378	\$ 18,116,378	\$ 18,602,928	\$ 486,550
Expenditures				
Current				
Human services				
Income maintenance	\$ 3,991,096	\$ 3,991,096	\$ 4,240,425	\$ (249,329)
Social services	14,125,282	14,125,282	14,417,948	(292,666)
Total Expenditures	\$ 18,116,378	\$ 18,116,378	\$ 18,658,373	\$ (541,995)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (55,445)	\$ (55,445)
Fund Balance - January 1	9,075,415	9,075,415	9,075,415	-
Fund Balance - December 31	\$ 9,075,415	\$ 9,075,415	\$ 9,019,970	\$ (55,445)

**CROW WING COUNTY
BRAINERD, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
LAND MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 652,000	\$ 652,000	\$ 793,568	\$ 141,568
Intergovernmental	63,676	63,676	66,395	2,719
Charges for services	1,000	1,000	1,618	618
Sales	352,000	352,000	645,984	293,984
Miscellaneous	62,700	62,700	46,468	(16,232)
Total Revenues	\$ 1,131,376	\$ 1,131,376	\$ 1,554,033	\$ 422,657
Expenditures				
Current				
General government				
Other	\$ 350,000	\$ 350,000	\$ 984,724	\$ (634,724)
Conservation of natural resources				
Other	794,599	794,599	516,260	278,339
Total Expenditures	\$ 1,144,599	\$ 1,144,599	\$ 1,500,984	\$ (356,385)
Excess of Revenues Over (Under) Expenditures	\$ (13,223)	\$ (13,223)	\$ 53,049	\$ 66,272
Fund Balance - January 1	204,781	204,781	204,781	-
Fund Balance - December 31	\$ 191,558	\$ 191,558	\$ 257,830	\$ 66,272

**CROW WING COUNTY
BRAINERD, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2006**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Tobacco Compliance Special Revenue Fund, the Capital Projects Fund, and the Environmental Trust Permanent Fund, which are not budgeted. The Capital Projects Fund does not adopt a budget for the capital notes and bonds that are acquired from the fund. All annual appropriations lapse at fiscal year-end.

On or before mid-July of each year, all departments and agencies submit requests for appropriations to the County Administrator so that a budget can be prepared. On or before September 15, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. Revisions that alter the budgeted revenues or expenditures of any fund must be approved by the Board of Commissioners. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, supplemental budgetary appropriations were not considered significant.

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2006, expenditures exceeded appropriations in the Human Services Special Revenue Fund and the Land Management Special Revenue Fund (the legal level of budgetary control) by \$541,995 and \$356,385, respectively. These overexpenditures were funded by greater than anticipated revenues.

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SUPPLEMENTARY INFORMATION

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**CROW WING COUNTY
BRAINERD, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 5,813,859	\$ 5,813,859	\$ 5,367,739	\$ (446,120)
Intergovernmental	105,299	105,299	540,074	434,775
Miscellaneous	57,619	57,619	52,819	(4,800)
Total Revenues	<u>\$ 5,976,777</u>	<u>\$ 5,976,777</u>	<u>\$ 5,960,632</u>	<u>\$ (16,145)</u>
Expenditures				
Debt service				
Principal	\$ 3,095,000	\$ 3,095,000	\$ 3,095,000	\$ -
Interest	2,553,922	2,553,922	2,553,921	1
Administrative - fiscal charges	1,000	1,000	1,555	(555)
Total Expenditures	<u>\$ 5,649,922</u>	<u>\$ 5,649,922</u>	<u>\$ 5,650,476</u>	<u>\$ (554)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 326,855</u>	<u>\$ 326,855</u>	<u>\$ 310,156</u>	<u>\$ (16,699)</u>
Fund Balance - January 1	<u>4,623,682</u>	<u>4,623,682</u>	<u>4,623,682</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 4,950,537</u></u>	<u><u>\$ 4,950,537</u></u>	<u><u>\$ 4,933,838</u></u>	<u><u>\$ (16,699)</u></u>

**CROW WING COUNTY
BRAINERD, MINNESOTA**

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	<u>SCORE</u>	<u>Tobacco Compliance</u>	<u>Special Revenue County Building</u>
<u>Assets</u>			
Cash and pooled investments	\$ 1,014,915	\$ 11,679	\$ -
Taxes receivable			
Prior	-	-	4,632
Accounts receivable	947	500	-
Accrued interest receivable	-	-	-
Due from other funds	-	-	338,762
Due from other governments	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,015,862</u>	<u>\$ 12,179</u>	<u>\$ 343,394</u>
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 15,359	\$ -	\$ -
Salaries payable	3,916	-	-
Accrued payroll taxes payable	504	-	-
Due to other funds	1,754	-	19,738
Deferred revenue - unavailable	774	-	4,632
Deferred revenue - unearned	66,593	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>\$ 88,900</u>	<u>\$ -</u>	<u>\$ 24,370</u>
Fund Balances			
Reserved for environmental uses	\$ -	\$ -	\$ -
Reserved for SCORE	976,213	-	-
Unreserved			
Undesignated	(49,251)	12,179	319,024
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>\$ 926,962</u>	<u>\$ 12,179</u>	<u>\$ 319,024</u>
Total Liabilities and Fund Balances	<u>\$ 1,015,862</u>	<u>\$ 12,179</u>	<u>\$ 343,394</u>

Statement 1

<u>Funds</u>			<u>Permanent Fund</u>	<u>Total Nonmajor</u>
<u>Unorganized</u>	<u>Extension</u>	<u>Total</u>	<u>Environmental</u>	<u>Governmental</u>
<u>Townships</u>	<u>Grants</u>		<u>Trust</u>	<u>Funds</u>
				<u>(Exhibit 3)</u>
\$ 926,673	\$ -	\$ 1,953,267	\$ 1,890,020	\$ 3,843,287
18,536	-	23,168	-	23,168
-	-	1,447	-	1,447
-	-	-	13,212	13,212
-	-	338,762	-	338,762
-	12,788	12,788	-	12,788
\$ 945,209	\$ 12,788	\$ 2,329,432	\$ 1,903,232	\$ 4,232,664
\$ -	\$ 249	\$ 15,608	\$ -	\$ 15,608
-	-	3,916	-	3,916
-	-	504	-	504
-	376	21,868	-	21,868
18,536	-	23,942	-	23,942
-	-	66,593	-	66,593
\$ 18,536	\$ 625	\$ 132,431	\$ -	\$ 132,431
\$ -	\$ -	\$ -	\$ 1,846,499	\$ 1,846,499
-	-	976,213	-	976,213
926,673	12,163	1,220,788	56,733	1,277,521
\$ 926,673	\$ 12,163	\$ 2,197,001	\$ 1,903,232	\$ 4,100,233
\$ 945,209	\$ 12,788	\$ 2,329,432	\$ 1,903,232	\$ 4,232,664

**CROW WING COUNTY
BRAINERD, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>SCORE</u>	<u>Tobacco Compliance</u>	<u>Special Revenue County Building</u>
Revenues			
Taxes	\$ -	\$ -	\$ 737
Special assessments	555,567	-	-
Intergovernmental	133,139	-	2
Charges for services	328,853	-	-
Fines and forfeits	-	1,190	-
Investment earnings	-	-	-
Miscellaneous	40,418	-	972,866
Total Revenues	\$ 1,057,977	\$ 1,190	\$ 973,605
Expenditures			
Current			
General government	\$ -	\$ -	\$ 301,644
Public safety	-	-	-
Highways and streets	-	-	-
Health	-	327	-
Conservation of natural resources	721,054	-	-
Debt service			
Principal	-	-	75,000
Interest	-	-	8,175
Administrative - fiscal charges	-	-	1,300
Total Expenditures	\$ 721,054	\$ 327	\$ 386,119
Excess of Revenues Over (Under)			
Expenditures	\$ 336,923	\$ 863	\$ 587,486
Other Financing Sources (Uses)			
Transfers in	\$ -	\$ -	\$ 328,145
Transfers out	(597,196)	-	(4,532,755)
Total Other Financing Sources (Uses)	\$ (597,196)	\$ -	\$ (4,204,610)
Net Change in Fund Balance	\$ (260,273)	\$ 863	\$ (3,617,124)
Fund Balance - January 1	1,187,235	11,316	3,936,148
Fund Balance - December 31	\$ 926,962	\$ 12,179	\$ 319,024

Statement 2

Funds			Permanent Fund	Total Nonmajor
Unorganized	Extension	Total	Environmental	Governmental
Townships	Grants		Trust	Funds
				(Exhibit 5)
\$ 488,683	\$ -	\$ 489,420	\$ -	\$ 489,420
67,412	-	622,979	-	622,979
83,752	30,419	247,312	-	247,312
-	1,481	330,334	-	330,334
-	-	1,190	-	1,190
-	-	-	76,869	76,869
744	-	1,014,028	-	1,014,028
\$ 640,591	\$ 31,900	\$ 2,705,263	\$ 76,869	\$ 2,782,132
\$ 24,025	\$ -	\$ 325,669	\$ -	\$ 325,669
117,594	-	117,594	-	117,594
545,592	-	545,592	-	545,592
-	-	327	-	327
-	32,415	753,469	57,230	810,699
-	-	75,000	-	75,000
-	-	8,175	-	8,175
-	-	1,300	-	1,300
\$ 687,211	\$ 32,415	\$ 1,827,126	\$ 57,230	\$ 1,884,356
\$ (46,620)	\$ (515)	\$ 878,137	\$ 19,639	\$ 897,776
\$ -	\$ -	\$ 328,145	\$ -	\$ 328,145
-	-	(5,129,951)	-	(5,129,951)
\$ -	\$ -	\$ (4,801,806)	\$ -	\$ (4,801,806)
\$ (46,620)	\$ (515)	\$ (3,923,669)	\$ 19,639	\$ (3,904,030)
973,293	12,678	6,120,670	1,883,593	8,004,263
\$ 926,673	\$ 12,163	\$ 2,197,001	\$ 1,903,232	\$ 4,100,233

**CROW WING COUNTY
BRAINERD, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
SCORE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 535,000	\$ 535,000	\$ 555,567	\$ 20,567
Intergovernmental	120,000	120,000	133,139	13,139
Charges for services	335,000	335,000	328,853	(6,147)
Miscellaneous	40,000	40,000	40,418	418
Total Revenues	\$ 1,030,000	\$ 1,030,000	\$ 1,057,977	\$ 27,977
Expenditures				
Current				
Conservation of natural resources SCORE	954,657	954,657	721,054	233,603
Excess of Revenues Over (Under) Expenditures	\$ 75,343	\$ 75,343	\$ 336,923	\$ 261,580
Other Financing Sources (Uses)				
Transfers out	(328,145)	(328,145)	(597,196)	(269,051)
Change in Fund Balance	\$ (252,802)	\$ (252,802)	\$ (260,273)	\$ (7,471)
Fund Balance - January 1	1,187,235	1,187,235	1,187,235	-
Fund Balance - December 31	\$ 934,433	\$ 934,433	\$ 926,962	\$ (7,471)

**CROW WING COUNTY
BRAINERD, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
COUNTY BUILDING SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 7,400	\$ 7,400	\$ 737	\$ (6,663)
Intergovernmental	-	-	2	2
Miscellaneous	199,800	199,800	972,866	773,066
Total Revenues	\$ 207,200	\$ 207,200	\$ 973,605	\$ 766,405
Expenditures				
Current				
General government				
Facilities	\$ 37,000	\$ 37,000	\$ 301,644	\$ (264,644)
Debt service				
Principal	75,000	75,000	75,000	-
Interest	8,175	8,175	8,175	-
Administrative - fiscal charges	1,250	1,250	1,300	(50)
Total Expenditures	\$ 121,425	\$ 121,425	\$ 386,119	\$ (264,694)
Excess of Revenues Over (Under) Expenditures	\$ 85,775	\$ 85,775	\$ 587,486	\$ 501,711
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (4,532,755)	\$ (4,532,755)
Transfers in	328,145	328,145	328,145	-
Total Other Financing Sources (Uses)	\$ 328,145	\$ 328,145	\$ (4,204,610)	\$ (4,532,755)
Change in Fund Balance	\$ 413,920	\$ 413,920	\$ (3,617,124)	\$ (4,031,044)
Fund Balance - January 1	3,936,148	3,936,148	3,936,148	-
Fund Balance - December 31	\$ 4,350,068	\$ 4,350,068	\$ 319,024	\$ (4,031,044)

**CROW WING COUNTY
BRAINERD, MINNESOTA**

Schedule 8

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 547,750	\$ 547,750	\$ 488,683	\$ (59,067)
Special assessments	30,000	30,000	67,412	37,412
Intergovernmental	23,000	23,000	83,752	60,752
Miscellaneous	1,000	1,000	744	(256)
Total Revenues	\$ 601,750	\$ 601,750	\$ 640,591	\$ 38,841
Expenditures				
Current				
General government				
Other - general government	\$ 87,000	\$ 87,000	\$ 24,025	\$ 62,975
Public safety				
Other - public safety	117,595	117,595	117,594	1
Highways and streets				
Other - highways and streets	201,750	201,750	545,592	(343,842)
Total Expenditures	\$ 406,345	\$ 406,345	\$ 687,211	\$ (280,866)
Excess of Revenues Over (Under) Expenditures	\$ 195,405	\$ 195,405	\$ (46,620)	\$ (242,025)
Fund Balance - January 1	973,293	973,293	973,293	-
Fund Balance - December 31	\$ 1,168,698	\$ 1,168,698	\$ 926,673	\$ (242,025)

**CROW WING COUNTY
BRAINERD, MINNESOTA**

Schedule 9

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
EXTENSION GRANTS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 31,000	\$ 31,000	\$ 30,419	\$ (581)
Charges for services	-	-	1,481	1,481
Total Revenues	\$ 31,000	\$ 31,000	\$ 31,900	\$ 900
Expenditures				
Current				
Conservation of natural resources				
County extension	31,000	31,000	32,415	(1,415)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (515)	\$ (515)
Fund Balance - January 1	12,678	12,678	12,678	-
Fund Balance - December 31	\$ 12,678	\$ 12,678	\$ 12,163	\$ (515)

**CROW WING COUNTY
BRAINERD, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CROW WING THIRTY LAKES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,789	\$ -	\$ 2,789	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 2,789	\$ -	\$ 2,789	\$ -
 <u>CENTRAL MINNESOTA COMMUNITY CORRECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 400,914	\$ 3,869,769	\$ 3,665,550	\$ 605,133
Petty cash and change fund	150	-	-	150
Due from other governments	104,534	89,357	104,534	89,357
Total Assets	\$ 505,598	\$ 3,959,126	\$ 3,770,084	\$ 694,640
<u>Liabilities</u>				
Salaries payable	\$ 99,132	\$ 100,305	\$ 99,132	\$ 100,305
Due to other governments	406,466	3,858,821	3,670,952	594,335
Total Liabilities	\$ 505,598	\$ 3,959,126	\$ 3,770,084	\$ 694,640

**CROW WING COUNTY
BRAINERD, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,087,885	\$ 893,271	\$ 866,631	\$ 2,114,525
Due from other governments	268,675	-	268,675	-
Total Assets	\$ 2,356,560	\$ 893,271	\$ 1,135,306	\$ 2,114,525
<u>Liabilities</u>				
Due to other governments	\$ 2,356,560	\$ 893,271	\$ 1,135,306	\$ 2,114,525
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,146,044	\$ 95,659,721	\$ 96,087,927	\$ 1,717,838
<u>Liabilities</u>				
Due to other governments	\$ 2,146,044	\$ 95,659,721	\$ 96,087,927	\$ 1,717,838
 <u>SELECT TRUST</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 24,459	\$ 326,636	\$ 317,496	\$ 33,599
<u>Liabilities</u>				
Accounts payable	\$ 24,459	\$ 326,636	\$ 317,496	\$ 33,599

**CROW WING COUNTY
BRAINERD, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
 <u>BLACK BEAR-MILLER LAKES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>13,218</u>	\$ <u>978</u>	\$ <u>-</u>	\$ <u>14,196</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>13,218</u>	\$ <u>978</u>	\$ <u>-</u>	\$ <u>14,196</u>
 <u>4-H PLAT BOOKS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>4,190</u>	\$ <u>22,941</u>	\$ <u>26,201</u>	\$ <u>930</u>
<u>Liabilities</u>				
Accounts payable	\$ <u>4,190</u>	\$ <u>22,941</u>	\$ <u>26,201</u>	\$ <u>930</u>
 <u>LAKES AREA WELCOME CENTER</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>43,178</u>	\$ <u>35,208</u>	\$ <u>29,903</u>	\$ <u>48,483</u>
<u>Liabilities</u>				
Accounts payable	\$ <u>43,178</u>	\$ <u>35,208</u>	\$ <u>29,903</u>	\$ <u>48,483</u>

**CROW WING COUNTY
BRAINERD, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
 <u>SNOWMOBILE TRAILS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>3,225</u>	\$ <u>400,331</u>	\$ <u>392,123</u>	\$ <u>11,433</u>
<u>Liabilities</u>				
Accounts payable	\$ <u>3,225</u>	\$ <u>400,331</u>	\$ <u>392,123</u>	\$ <u>11,433</u>
 <u>LAKE IMPROVEMENT DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>9,673</u>	\$ <u>84,258</u>	\$ <u>60,232</u>	\$ <u>33,699</u>
<u>Liabilities</u>				
Accounts payable	\$ <u>9,673</u>	\$ <u>84,258</u>	\$ <u>60,232</u>	\$ <u>33,699</u>

**CROW WING COUNTY
BRAINERD, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>GAME AND FISH</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,460	\$ 6,991	\$ 7,003	\$ 1,448
	\$ 1,460	\$ 6,991	\$ 7,003	\$ 1,448
<u>Liabilities</u>				
Due to other governments	\$ 1,460	\$ 6,991	\$ 7,003	\$ 1,448
	\$ 1,460	\$ 6,991	\$ 7,003	\$ 1,448
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 4,737,035	\$ 101,300,104	\$ 101,455,855	\$ 4,581,284
Petty cash and change fund	150	-	-	150
Due from other governments	373,209	89,357	373,209	89,357
	\$ 5,110,394	\$ 101,389,461	\$ 101,829,064	\$ 4,670,791
Total Assets	\$ 5,110,394	\$ 101,389,461	\$ 101,829,064	\$ 4,670,791
<u>Liabilities</u>				
Accounts payable	\$ 84,725	\$ 869,374	\$ 825,955	\$ 128,144
Salaries payable	99,132	100,305	99,132	100,305
Due to other governments	4,926,537	100,419,782	100,903,977	4,442,342
	\$ 5,110,394	\$ 101,389,461	\$ 101,829,064	\$ 4,670,791
Total Liabilities	\$ 5,110,394	\$ 101,389,461	\$ 101,829,064	\$ 4,670,791

OTHER SCHEDULE

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**CROW WING COUNTY
BRAINERD, MINNESOTA**

Schedule 10

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Funds</u>	<u>Enterprise Fund</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Shared Revenue				
State				
Highway users tax	\$ 3,375,892	\$ -	\$ 3,375,892	\$ -
PERA rate reimbursement	73,153	595	73,748	-
Disparity reduction aid	14,179	-	14,179	-
Police aid	181,459	-	181,459	-
County program aid	1,746,604	-	1,746,604	-
Market value credit	1,945,312	-	1,945,312	2,934
Taconite credit	396,939	-	396,939	892
Enhanced 911	144,712	-	144,712	-
Total Shared Revenue	\$ 7,878,250	\$ 595	\$ 7,878,845	\$ 3,826
Reimbursement for Services				
State				
Minnesota Department of Human Services	\$ 5,015,846	\$ -	\$ 5,015,846	\$ -
Payments				
Local				
Other contributions	\$ 105,913	\$ -	\$ 105,913	\$ -
Local contributions	385,477	-	385,477	-
Payments in lieu of taxes	311,650	-	311,650	-
Total Payments	\$ 803,040	\$ -	\$ 803,040	\$ -
Grants				
State				
Minnesota Department of Public Safety	\$ 34,600	\$ -	\$ 34,600	\$ -
Transportation	128,271	-	128,271	-
Health	247,865	-	247,865	-
Natural Resources	78,294	-	78,294	-
Human Services	3,168,391	-	3,168,391	-
Water and Soil Resources Board	25,292	-	25,292	-
Office of Environmental Assistance	133,139	-	133,139	-
Total State	\$ 3,815,852	\$ -	\$ 3,815,852	\$ -

**CROW WING COUNTY
BRAINERD, MINNESOTA**

Schedule 10
(Continued)

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Funds</u>	<u>Enterprise Fund</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Grants (Continued)				
Federal				
Department of				
Agriculture	\$ 269,641	\$ -	\$ 269,641	\$ -
Transportation	391,344	-	391,344	-
Health and Human Services	2,689,044	-	2,689,044	-
Homeland Security	168,216	-	168,216	-
Environmental Protection Agency	-	-	-	61,269
Elections Assistance Commission	448,011	-	448,011	-
Total Federal	<u>\$ 3,966,256</u>	<u>\$ -</u>	<u>\$ 3,966,256</u>	<u>\$ 61,269</u>
Total State and Federal Grants	<u>\$ 7,782,108</u>	<u>\$ -</u>	<u>\$ 7,782,108</u>	<u>\$ 61,269</u>
Total Intergovernmental Revenue	<u>\$ 21,479,244</u>	<u>\$ 595</u>	<u>\$ 21,479,839</u>	<u>\$ 65,095</u>

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**CROW WING COUNTY
BRAINERD, MINNESOTA**

Schedule 11

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Crow Wing County.
- B. No matters involving internal control over financial reporting were reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*."
- C. No instances of noncompliance material to the financial statements of Crow Wing County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Crow Wing County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Help America Vote Act	CFDA #90.401
Child Care Development Block Grant	CFDA #93.575
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Crow Wing County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

Bank Account Reconciliation (05-1)

During 2005, the County's checking account at Bremer Bank was not completely reconciled to the book value.

Resolution

The County has reduced the unreconciled amount and is continuing to work on the remaining amount.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

06-1 Insufficient Collateral to Secure Deposits

Minn. Stat. § 118A.03, subd. 3, requires that the total amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit in excess of federal deposit insurance plus accrued interest. The collateral pledged by Bremer Bank was sufficient to cover 100 percent of the deposits at December 31, 2006; however, 110 percent of deposits exceeded collateral by \$504,961.

We recommend that the County comply with statutes to ensure that the necessary collateral is pledged to secure County deposits.

Client's Response:

We carefully monitored the collateral pledged for Bremer Bank throughout the year. Unfortunately, some staffing shortages and unexpected activity at the end of the year resulted in the lack of full coverage on December 31, 2006.

The deposit account has been changed to a sweep account with separate collateral pledged overnight to cover that account at 110 percent. We will continue to monitor the account even closer at the end of the year to make sure this does not reoccur.

PREVIOUSLY REPORTED ITEMS RESOLVED

Declaration of Payments (05-2)

The County made construction payments using wire transfers and, in these cases, the declaration required by Minn. Stat. § 471.38 was not obtained.

Resolution

The County has discontinued making construction payments using wire transfers.

Collateral Assignment (05-3)

The written assignment of collateral for deposits at Deerwood Bank was deficient.

Resolution

A new assignment of collateral was obtained from Deerwood Bank.

V. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the County Board will need to address in order to comply with the statements are:

- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis; and
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard.

If applicable for Crow Wing County, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2007 and 2008, respectively.

OTHER REQUIRED REPORTS

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

Board of County Commissioners
Crow Wing County

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Crow Wing County as of and for the year ended December 31, 2006, and have issued our report thereon dated September 27, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Serpent Lake Sanitary Sewer District, a discretely presented component unit, as described in our report on Crow Wing County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. Those financial statements were audited by other auditors, whose report thereon has been furnished to us. The financial statements of the Serpent Lake Sanitary Sewer District were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control.

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Crow Wing County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 06-1.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2007

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

Board of County Commissioners
Crow Wing County

Compliance

We have audited the compliance of Crow Wing County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. Crow Wing County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Crow Wing County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

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

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Crow Wing County as of and for the year ended December 31, 2006, and have issued our report thereon dated September 27, 2007. We did not audit the financial statements of the Serpent Lake Sanitary Sewer District, a discretely presented component unit. Those financial statements were audited by other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively

comprise Crow Wing County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2007

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**CROW WING COUNTY
BRAINERD, MINNESOTA**

Schedule 12

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 250,782	\$ -
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	18,859	-
Total U.S. Department of Agriculture		\$ 269,641	\$ -
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 379,674	\$ -
State and Community Highway Safety	20.600	11,670	-
Total U.S. Department of Transportation		\$ 391,344	\$ -
U.S. Environmental Protection Agency			
Direct Congressionally Mandated Projects	66.202	\$ 61,269	\$ -
U.S. Election Assistance Commission			
Passed Through Minnesota Secretary of State Help America Vote Act (HAVA)	90.401	\$ 448,011	\$ -
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Health Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	\$ 78,959	\$ -
Temporary Assistance for Needy Families (TANF)	93.558	17,259	-
Assistance Programs for Chronic Disease Prevention and Control	93.945	3,740	-
Block Grant - Prevention/Treatment of Substance Abuse	93.959	42,662	-
Maternal and Child Health Services Block Grant	93.994	66,464	-
Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families (TANF)	93.558	609,185	609,185
Block Grant - Child Care and Development	93.575	1,184,946	-
Foster Care Title IV-E	93.658	279,235	-
Social Services Block Grant Title XX	93.667	394,534	-
Chafee Foster Care Independence Program	93.674	12,060	-
Total U.S. Department of Health and Human Services		\$ 2,689,044	\$ 609,185

**CROW WING COUNTY
BRAINERD, MINNESOTA**

Schedule 12
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
State Domestic Preparedness Equipment Support Program	97.004	\$ 69,319	\$ -
Boating Safety Financial Assistance	97.012	10,941	-
Homeland Security Grant Program	97.067	87,956	-
Total U.S. Department of Homeland Security		\$ 168,216	\$ -
Total Federal Awards		\$ 4,027,525	\$ 609,185

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Crow Wing County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. Pass-through grant numbers were not assigned by the pass-through agencies.