

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**MILLE LACS COUNTY**  
**MILACA, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 2007

## **Description of the Office of the State Auditor**

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

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

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

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

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

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

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

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

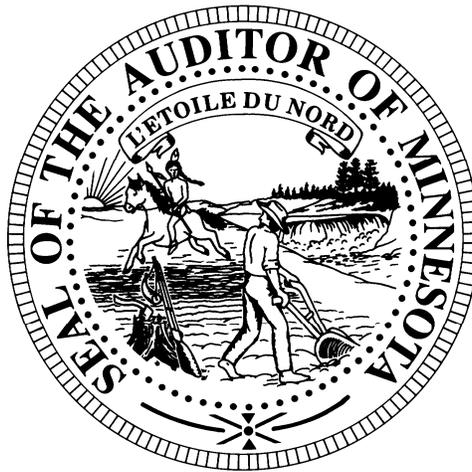
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

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**MILLE LACS COUNTY  
MILACA, MINNESOTA**

**For the Year Ended December 31, 2007**



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

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**MILLE LACS COUNTY  
MILACA, MINNESOTA**

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**MILLE LACS COUNTY  
MILACA, MINNESOTA**

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**MILLE LACS COUNTY  
MILACA, MINNESOTA**

**ORGANIZATION  
2007**

Office	Name	Term	
		From	To
<b>Commissioners</b>			
1st District	Jack Edmonds	January 2005	January 2009
2nd District	Dave Tellinghuisen	January 2007	January 2011
3rd District	Phil Peterson*	January 2005	January 2009
4th District	Roger Tellinghuisen	January 2007	January 2011
5th District	Frank Courteau	January 2005	January 2009
<b>Officers</b>			
<b>Elected</b>			
Attorney	Janice Kolb	January 2007	January 2011
Auditor/Treasurer	Philip Thompson	January 2007	January 2011
Sheriff	Brent Lindgren	January 2007	January 2011
<b>Appointed</b>			
Assessor	Patricia Stotz	January 2005	December 2008
Coroner	Janice Amatuzio	January 2007	December 2007
County Engineer	Bruce Cochran	May 2007	May 2011
County Recorder	Jennifer LaDuke	January 2007	Indefinite
Probation Officer	Warren Liepitz	Indefinite	Indefinite
Surveyor	Daniel Nickols	Indefinite	Indefinite
Veterans' Service Officer	Ken Olson	Indefinite	Indefinite
IS Director	Michael Virnig	Indefinite	Indefinite
Public Health Director	Sylvia Cook	March 2007	Indefinite
Maintenance	Joe Ahner	Indefinite	Indefinite
Zoning Administrator	Michele McPherson	Indefinite	Indefinite
County Coordinator	Roxy Traxler	Indefinite	Indefinite
<b>Family Services</b>			
<b>Board</b>			
Member	Phil Peterson	July 2007	June 2008
Member	Jack Edmonds	July 2007	June 2008
Vice Chair	La Von Ziegler	July 2007	June 2008
Member	Roger Tellinghuisen	July 2007	June 2008
Secretary	Johann Ward	July 2007	June 2008
Member	Dave Tellinghuisen	July 2007	June 2008
Chairperson	Frank Courteau	July 2007	June 2008
Director	Leo Vos	Indefinite	Indefinite

\*Board Chair

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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

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

### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Mille Lacs County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mille Lacs County, Minnesota, as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mille Lacs County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mille Lacs County as of December 31, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Page 2

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Mille Lacs County's basic financial statements. The supplementary information and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly 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 December 5, 2008, on our consideration of Mille Lacs 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 financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 5, 2008

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**MILLE LACS COUNTY  
MILACA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2007  
(Unaudited)**

Mille Lacs County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2007. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

**FINANCIAL HIGHLIGHTS**

- Governmental activities' total net assets are \$60,391,907, of which Mille Lacs County has invested \$43,568,627 in capital assets, net of related debt, and \$1,734,831 is restricted to specific purposes/uses by the County.
- The net cost of Mille Lacs County's governmental activities for the year ended December 31, 2007, was \$12,131,516; the net cost was funded by general revenues and other items totaling \$15,936,759.
- At the close of 2007, Mille Lacs County's governmental funds reported combined ending fund balances of \$15,163,434, a decrease of \$2,261,939 from the previous year-end balance. At the end of the year, Mille Lacs County's unreserved fund balance totaled \$13,365,164, which is available for spending at the County Board's discretion.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

Mille Lacs County's MD&A serves as an introduction to the basic financial statements. The County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) and certain budgetary comparison schedules are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are inter-related.

<b>Management’s Discussion and Analysis</b> (Required Supplementary Information)
---

<b>Government-Wide Financial Statements</b>	<b>Fund Financial Statements</b>
<b>Notes to the Financial Statements</b>	

<b>Required Supplementary Information</b> (Other than Management’s Discussion and Analysis)
--

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

**Government-Wide Financial Statements--The Statement of Net Assets and the Statement of Activities**

The Statement of Net Assets and the Statement of Activities report information about Mille Lacs County as a whole and about its activities in a way that helps the reader determine whether Mille Lacs County’s financial condition has improved or declined as a result of the current year’s activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

These two statements consider all of Mille Lacs County’s current year revenues and expenses, regardless of when the County receives the revenue or pays the expenditure, and report the County’s net assets and changes in them. You can think of the County’s net assets--the difference between assets and liabilities--as one way to measure Mille Lacs County’s financial health or financial position. Over time, increases or decreases in the County’s net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the County’s property tax base and the general economic conditions of the state and County, to assess the overall health of Mille Lacs County.

Governmental activities--Mille Lacs County reports its basic services in the "Governmental Activities" column of these reports. The activities reported by the County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, economic development, and interest. Mille Lacs County finances the majority of these activities with local property taxes, state-paid aids, fees, charges for services, and federal and state grants.

### **Fund Financial Statements**

Mille Lacs County's fund financial statements provide detailed information about the significant funds--not the County as a whole. Significant governmental and fiduciary funds may be established by the County to meet requirements of a specific state law, to help control and manage money for a particular purpose/project, or to show that it is meeting specific legal responsibilities and obligations when expending property tax revenues, grants, and/or other funds designated for a specific purpose.

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

### **Reporting the County's Fiduciary Responsibilities**

Mille Lacs County is the trustee, or fiduciary, over assets that can be used only for the trust beneficiaries based on the trust arrangement. The County reports all of its fiduciary activities in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities have been excluded from the County's other financial statements because the County cannot use these assets to finance its operations. Mille Lacs County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## THE COUNTY AS A WHOLE

The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities.

**Table 1**  
**Net Assets**

	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 20,062,833	\$ 22,803,316
Capital assets	<u>48,403,627</u>	<u>45,685,490</u>
Total Assets	<u>\$ 68,466,460</u>	<u>\$ 68,488,806</u>
Long-term liabilities outstanding	\$ 6,167,598	\$ 9,935,084
Other liabilities	<u>1,906,955</u>	<u>1,967,058</u>
Total Liabilities	<u>\$ 8,074,553</u>	<u>\$ 11,902,142</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 43,568,627	\$ 40,705,490
Restricted	1,734,831	1,187,884
Unrestricted	<u>15,088,449</u>	<u>14,693,290</u>
Total Net Assets	<u>\$ 60,391,907</u>	<u>\$ 56,586,664</u>

Mille Lacs County's total net assets for the year ended December 31, 2007, were \$60,391,907. The governmental activities unrestricted net assets, totaling \$15,088,449, are available to finance the day-to-day operations of the governmental activities of Mille Lacs County.

**Table 2**  
**Changes in Net Assets**

	<u>2007</u>	<u>2006</u>
Program revenues		
Fees, charges, fines, and other	\$ 4,003,628	\$ 3,494,097
Operating grants and contributions	7,254,825	6,578,221
Capital grants and contributions	2,815,271	3,656,324
General revenues		
Property taxes	12,172,561	11,254,609
Other	<u>3,764,198</u>	<u>3,720,405</u>
Total Revenues	<u>\$ 30,010,483</u>	<u>\$ 28,703,656</u>

	<u>2007</u>	<u>2006</u>
Expenses		
General government	\$ 4,515,176	\$ 4,487,808
Public safety	6,494,010	5,815,352
Highways and streets	5,868,929	5,982,644
Sanitation	106,987	108,904
Human services	7,816,150	7,181,712
Health	660,189	716,770
Culture and recreation	239,363	229,641
Conservation of natural resources	191,689	185,296
Economic development	108,577	102,484
Interest	<u>204,170</u>	<u>376,990</u>
Total Expenses	<u>\$ 26,205,240</u>	<u>\$ 25,187,601</u>
Increase in Net Assets	\$ 3,805,243	\$ 3,516,055
Net Assets, January 1	<u>56,586,664</u>	<u>53,070,609</u>
Net Assets, December 31	<u><u>\$ 60,391,907</u></u>	<u><u>\$ 56,586,664</u></u>

### **Governmental Activities**

Revenues for Mille Lacs County's governmental activities for the year ended December 31, 2007, were \$30,010,483. The County's cost for all governmental activities for the year ended December 31, 2007, was \$26,205,240. The net assets for the County's governmental activities increased by \$3,805,243 in 2007.

As shown in the Statement of Activities, the amount that Mille Lacs County taxpayers ultimately financed for these governmental activities through local property taxation was \$12,172,561, because \$4,003,628 of the costs were paid by those who directly benefited from the programs, and \$10,070,096 was paid by other governments and organizations that subsidized certain programs with grants and contributions. Mille Lacs County paid for the remaining "public benefit" portion of governmental activities with \$2,595,464 in grants and contributions not restricted to specific programs and \$1,168,734 in other revenues, such as investment income, mortgage registry tax, and state deed tax.

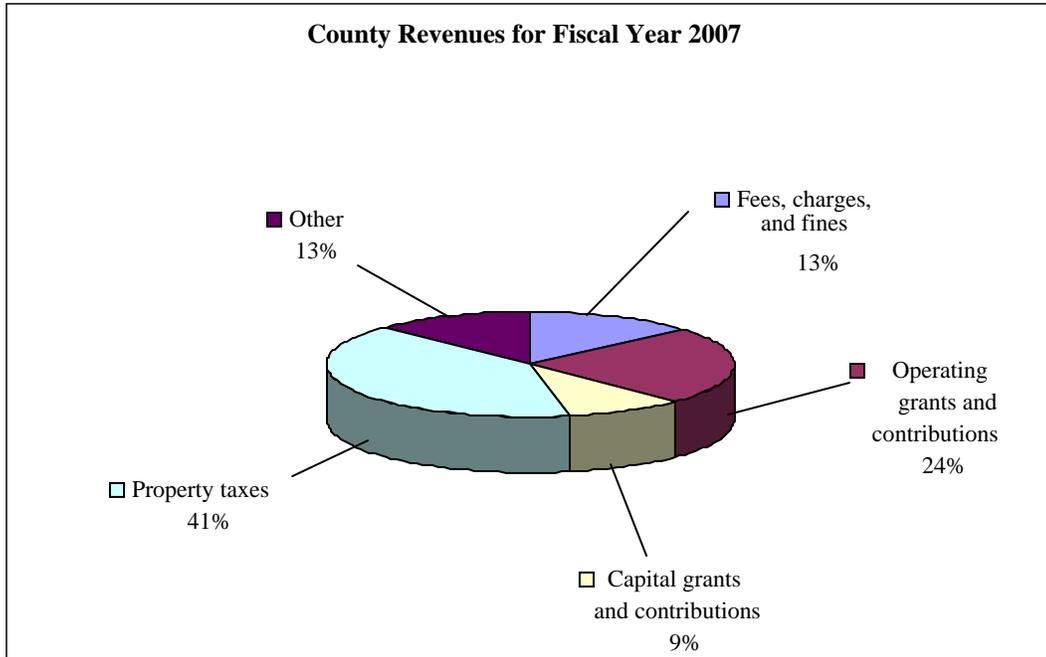
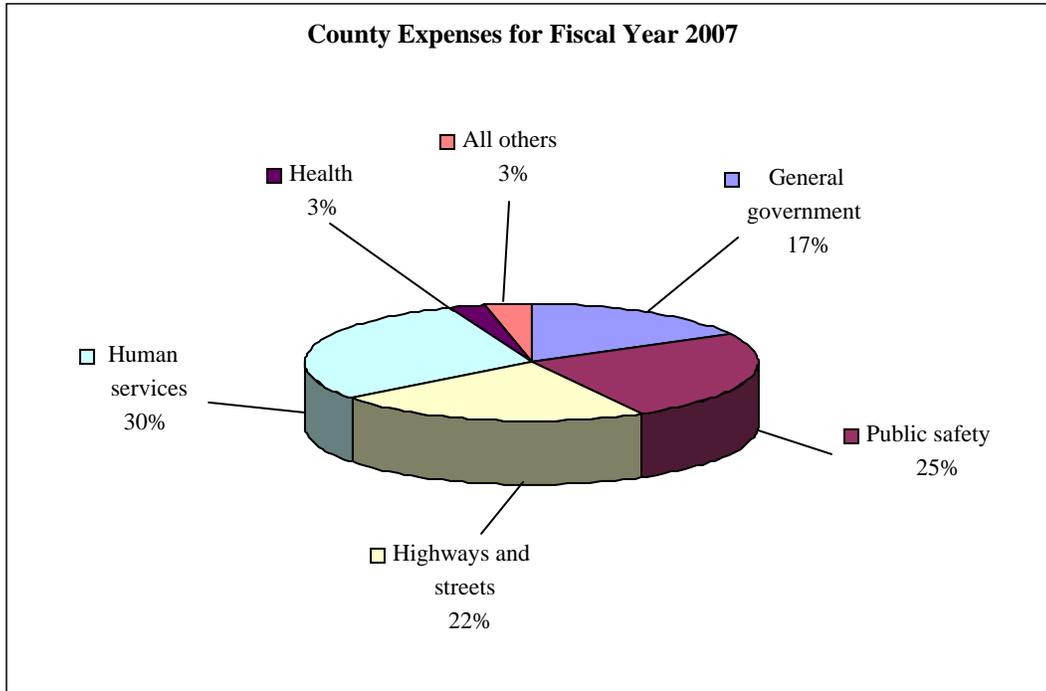


Table 3 presents the cost of each of Mille Lacs County's five largest program functions as well as each function's net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden placed on Mille Lacs County's taxpayers by each of these functions.

**Table 3  
Governmental Activities**

	Total Cost of Services 2007	Net Cost of Services 2007
Program expenses		
General government	\$ 4,515,176	\$ 3,074,774
Public safety	6,494,010	4,307,518
Highways and streets	5,868,929	987,781
Human services	7,816,150	2,914,913
Health	660,189	267,086
All others	850,786	579,444
Total Program Expenses	<u>\$ 26,205,240</u>	<u>\$ 12,131,516</u>



## **THE COUNTY'S FUNDS**

As Mille Lacs County completed the year, its governmental funds, as presented in the balance sheet reported a combined fund balance of \$15,163,434.

### **General Fund Budgetary Highlights**

The Mille Lacs County Board of Commissioners, over the course of a budget year, may amend/revise the County's General Fund budget. During 2007, the County Board of Commissioners made no changes to the budget as originally adopted on December 19, 2006. Budget amendments/revisions fall into one of three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts.

In the General Fund, the actual revenues were above the expected revenues by \$1,738,415, and actual expenditures were \$1,011,811 greater than budgeted expenditures.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2007, Mille Lacs County had \$48,403,627 invested in a broad range of capital assets, net of depreciation. This investment in capital assets includes land, land improvements, buildings, highways and streets, and equipment (see Table 4 below).

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

	<u>2007</u>	<u>2006</u>
Land	\$ 1,826,533	\$ 1,360,055
Construction in progress	1,472,300	2,361,995
Land improvements	232,812	253,154
Buildings	7,675,695	5,408,777
Machinery and equipment	1,847,861	2,066,073
Infrastructure	<u>35,348,426</u>	<u>34,235,436</u>
Total	<u>\$ 48,403,627</u>	<u>\$ 45,685,490</u>

### Debt Administration

At December 31, 2007, Mille Lacs County had \$4,835,000 in bonds and notes outstanding, compared with \$8,535,000 as of December 31, 2006--a decrease of 43.4 percent--as shown in Table 5.

**Table 5**  
**Outstanding Debt at Year-End**

<u>Bonds and Notes Payable</u>	<u>Governmental Activities</u>		<u>Percent Change (%)</u>
	<u>2007</u>	<u>2006</u>	
1997 G.O. Law Enforcement Center Bonds	\$ -	\$ 3,675,000	N/A
1998 HRA Lease Revenue Bonds	-	1,305,000	N/A
2005 G.O. Law Enforcement Center Refunding Bonds	3,555,000	3,555,000	0.0
2007 HRA Lease Revenue Refunding Bonds	<u>1,280,000</u>	<u>-</u>	N/A
Total	<u>\$ 4,835,000</u>	<u>\$ 8,535,000</u>	(43.4)

Other long-term obligations include compensated absences. Mille Lacs County's notes to the financial statements provide detailed information about the County's long-term liabilities.

## **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 and tax rates.

- Major revenue sources for the County are state-paid aids, credits, and grants. Should the State of Minnesota significantly reduce these revenues or pass on costs to the County, it would have a significant impact on next year's budget.
- Mille Lacs County's annual unemployment rate for 2007 was 7.7 percent. This is significantly above the state-wide rate of 4.6 percent and the national rate of 4.6 percent.
- Land development and regulation issues.
- Reviewing revenue sources and considering cost-effective and efficient means for the delivery of Mille Lacs County programs and services will influence the development of future budgets.

## **CONSTRUCTION/BONDING PLANS**

The County Board is planning construction of a Justice Center facility, beginning construction in the fall of 2008 and continuing through most of 2009. This project will be financed primarily through General Obligation Capital Improvement Bonds of approximately \$8 million. The remainder of the approximately \$10 million project will be paid out of the 2008 and 2009 overall budgets and some draw down of General Fund balances.

## **CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

Mille Lacs County's financial report provides citizens, taxpayers, customers, investors, and creditors with a general overview of Mille Lacs County's finances and shows the County's accountability for the money it receives and spends. If you have questions about this report, or need additional financial information, contact Philip Thompson, Mille Lacs County Auditor/Treasurer (320-983-8310), Mille Lacs County Courthouse, 635 - 2nd Street S.E., Milaca, Minnesota 56353.

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**MILLE LACS COUNTY  
MILACA, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2007**

**Assets**

Cash and pooled investments	\$	15,365,956
Petty cash and change funds		1,400
Departmental cash		19,745
Taxes receivable		
Prior		823,148
Special assessments receivable		
Prior		17,303
Accounts receivable		92,935
Accrued interest receivable		170,946
Due from other governments		3,181,756
Inventories		292,445
Advances to other governments		53,548
Deferred charges		43,651
Capital assets		
Non-depreciable		3,298,833
Depreciable - net of accumulated depreciation		45,104,794
		<b>68,466,460</b>
<b>Total Assets</b>	<b>\$</b>	<b>68,466,460</b>

**Liabilities**

Accounts payable	\$	787,175
Salaries payable		413,837
Contracts payable		383,369
Due to other governments		250,686
Matured interest payable		71,888
Long-term liabilities		
Due within one year		405,289
Due in more than one year		5,762,309
		<b>8,074,553</b>
<b>Total Liabilities</b>	<b>\$</b>	<b>8,074,553</b>

**Net Assets**

Invested in capital assets - net of related debt	\$	43,568,627
Restricted for		
General government		316,108
Public safety		257,530
Highways and streets		878,639
Debt service		282,554
Unrestricted		15,088,449
		<b>60,391,907</b>
<b>Total Net Assets</b>	<b>\$</b>	<b>60,391,907</b>

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

*EXHIBIT 2*

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Program Revenues</b>			<b>Net (Expense) Revenue and Changes in Net Assets</b>
<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
<b><u>Functions/Programs</u></b>				
<b>Governmental activities</b>				
General government	\$ 4,515,176	\$ 1,366,757	\$ 73,645	\$ -
Public safety	6,494,010	1,453,828	732,664	-
Highways and streets	5,868,929	73,442	1,992,435	2,815,271
Sanitation	106,987	126,211	-	-
Human services	7,816,150	873,950	4,027,287	-
Health	660,189	98,344	294,759	-
Culture and recreation	239,363	-	68,625	-
Conservation of natural resources	191,689	11,096	65,410	-
Economic development	108,577	-	-	-
Interest	204,170	-	-	-
	<b>Total</b>	<b>\$ 4,003,628</b>	<b>\$ 7,254,825</b>	<b>\$ 2,815,271</b>
	<b>\$ 26,205,240</b>	<b>\$ 4,003,628</b>	<b>\$ 7,254,825</b>	<b>\$ 2,815,271</b>
				<b>\$ (12,131,516)</b>
 <b>General Revenues</b>				
Property taxes				\$ 12,172,561
Gravel tax				29,074
Mortgage registry and deed tax				28,876
Payments in lieu of tax				163,464
Grants and contributions not restricted to specific programs				2,595,464
Unrestricted investment earnings				787,781
Miscellaneous				18,794
Gain on sale of capital assets				140,745
				<b>Total general revenues</b>
				<b>\$ 15,936,759</b>
				<b>Change in net assets</b>
				<b>\$ 3,805,243</b>
				<b>Net Assets - January 1</b>
				<b>56,586,664</b>
				<b>Net Assets - December 31</b>
				<b>\$ 60,391,907</b>

**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2007**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 7,645,922	\$ 1,671,976
Petty cash and change funds	1,350	-
Departmental cash	19,745	-
Taxes receivable		
Prior	473,518	95,794
Special assessments		
Prior	17,303	-
Accounts receivable	53,127	-
Accrued interest receivable	170,946	-
Due from other funds	23,745	-
Due from other governments	274,122	2,370,266
Inventories	-	292,445
Advances to other governments	-	-
	<b>\$ 8,679,778</b>	<b>\$ 4,430,481</b>
<b>Total Assets</b>	<b>\$ 8,679,778</b>	<b>\$ 4,430,481</b>

**EXHIBIT 3**

<u>Family Services</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 5,638,092	\$ 276,330	\$ 51,641	\$ 81,995	\$ 15,365,956
50	-	-	-	1,400
-	-	-	-	19,745
215,706	38,130	-	-	823,148
-	-	-	-	17,303
39,478	-	-	330	92,935
-	-	-	-	170,946
-	-	-	-	23,745
526,897	-	-	10,471	3,181,756
-	-	-	-	292,445
53,548	-	-	-	53,548
<u>\$ 6,473,771</u>	<u>\$ 314,460</u>	<u>\$ 51,641</u>	<u>\$ 92,796</u>	<u>\$ 20,042,927</u>

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2007**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Liabilities and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 249,313	\$ 226,261
Salaries payable	255,847	46,921
Contracts payable	-	383,369
Due to other funds	-	508
Due to other governments	92,570	4,583
Deferred revenue - unavailable	404,056	2,409,375
<b>Total Liabilities</b>	<b>\$ 1,001,786</b>	<b>\$ 3,071,017</b>
<b>Fund Balances</b>		
Reserved for		
Encumbrances	\$ -	\$ 874,486
Inventories	-	292,445
Advances to other governments	-	-
Law library	38,164	-
Recorder's equipment purchases	242,338	-
Enhanced 911	154,478	-
DARE	46,326	-
Drug and alcohol contingency	14,137	-
DWI forfeiture	26,947	-
Drug forfeiture	15,642	-
Attorney - forfeited property	35,606	-
Gravel pit restoration	4,153	-
Unreserved		
Designated for debt service	-	-
Designated for working capital cash flows	5,028,139	192,533
Designated for petty cash and change funds	1,350	-
Undesignated	2,070,712	-
Unreserved, reported in nonmajor Special revenue funds	-	-
<b>Total Fund Balances</b>	<b>\$ 7,677,992</b>	<b>\$ 1,359,464</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 8,679,778</b>	<b>\$ 4,430,481</b>

**EXHIBIT 3**  
**(Continued)**

<u>Family Services</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 311,306	\$ -	\$ -	\$ 295	\$ 787,175
107,298	-	-	3,771	413,837
-	-	-	-	383,369
23,237	-	-	-	23,745
153,497	-	-	36	250,686
175,344	31,906	-	-	3,020,681
<b>\$ 770,682</b>	<b>\$ 31,906</b>	<b>\$ -</b>	<b>\$ 4,102</b>	<b>\$ 4,879,493</b>
\$ -	\$ -	\$ -	\$ -	\$ 874,486
-	-	-	-	292,445
53,548	-	-	-	53,548
-	-	-	-	38,164
-	-	-	-	242,338
-	-	-	-	154,478
-	-	-	-	46,326
-	-	-	-	14,137
-	-	-	-	26,947
-	-	-	-	15,642
-	-	-	-	35,606
-	-	-	-	4,153
-	282,554	-	-	282,554
1,950,883	-	-	-	7,171,555
50	-	-	-	1,400
3,698,608	-	51,641	-	5,820,961
-	-	-	88,694	88,694
<b>\$ 5,703,089</b>	<b>\$ 282,554</b>	<b>\$ 51,641</b>	<b>\$ 88,694</b>	<b>\$ 15,163,434</b>
<b>\$ 6,473,771</b>	<b>\$ 314,460</b>	<b>\$ 51,641</b>	<b>\$ 92,796</b>	<b>\$ 20,042,927</b>

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**MILLE LACS COUNTY  
MILACA, MINNESOTA**

***EXHIBIT 4***

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
DECEMBER 31, 2007**

<b>Fund balances - total governmental funds (Exhibit 3)</b>		<b>\$ 15,163,434</b>
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.		48,403,627
Deferred charges are not available to pay current expenditures and, therefore, are not reported in the governmental funds.		43,651
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.		3,020,681
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 refunding bonds	\$ (3,555,000)	
Lease revenue refunding bonds	(1,280,000)	
Unamortized discount on bonds	33,690	
Compensated absences	<u>(1,366,288)</u>	(6,167,598)
Matured interest payable is not due and payable in the current period and, therefore, is not reported in the governmental funds.		<u>(71,888)</u>
<b>Net Assets of Governmental Activities (Exhibit 1)</b>		<b><u><u>\$ 60,391,907</u></u></b>

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>General</b>	<b>Road and Bridge</b>
<b>Revenues</b>		
Taxes	\$ 6,985,336	\$ 1,271,085
Special assessments	149,951	-
Licenses and permits	417,034	10,696
Intergovernmental	3,081,639	5,594,371
Charges for services	1,964,617	54,933
Fines and forfeits	71,312	-
Gifts and contributions	10,311	-
Investment earnings	729,596	-
Miscellaneous	527,593	25,180
	<b>\$ 13,937,389</b>	<b>\$ 6,956,265</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 4,897,089	\$ -
Public safety	6,419,538	-
Highways and streets	-	6,810,469
Sanitation	106,987	-
Human services	-	-
Health	569,060	-
Culture and recreation	9,000	-
Conservation of natural resources	189,138	-
Economic development	18,106	-
<b>Intergovernmental</b>		
Highways and streets	-	149,944
Culture and recreation	230,363	-
<b>Capital outlay</b>		
General government	100,457	-
Public safety	209,273	-
Highways and streets	1,112,774	-
<b>Debt service</b>		
Principal	-	-
Interest	-	-
Bond issuance costs	-	-
Administrative (fiscal) charges	-	-
	<b>\$ 13,861,785</b>	<b>\$ 6,960,413</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 75,604</b>	<b>\$ (4,148)</b>

**EXHIBIT 5**

<u>Family Services</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 3,273,883	\$ 495,400	\$ -	\$ 90,471	\$ 12,116,175
-	-	-	7,284	157,235
-	-	-	-	427,730
4,580,810	50,318	-	127,410	13,434,548
50,503	-	-	12,184	2,082,237
-	-	-	-	71,312
-	-	-	-	10,311
-	58,732	-	-	788,328
821,938	-	-	5,629	1,380,340
<b>\$ 8,727,134</b>	<b>\$ 604,450</b>	<b>\$ -</b>	<b>\$ 242,978</b>	<b>\$ 30,468,216</b>
\$ -	\$ -	\$ -	\$ -	\$ 4,897,089
-	-	-	-	6,419,538
-	-	-	-	6,810,469
-	-	-	-	106,987
7,856,489	-	-	-	7,856,489
-	-	-	104,909	673,969
-	-	-	-	9,000
-	-	-	794	189,932
-	-	-	90,471	108,577
-	-	-	-	149,944
-	-	-	-	230,363
-	-	-	-	100,457
-	-	-	-	209,273
-	-	-	-	1,112,774
-	275,000	-	-	275,000
-	277,193	-	-	277,193
-	17,000	-	-	17,000
-	1,178	-	-	1,178
<b>\$ 7,856,489</b>	<b>\$ 570,371</b>	<b>\$ -</b>	<b>\$ 196,174</b>	<b>\$ 29,445,232</b>
<b>\$ 870,645</b>	<b>\$ 34,079</b>	<b>\$ -</b>	<b>\$ 46,804</b>	<b>\$ 1,022,984</b>

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>General</b>	<b>Road and Bridge</b>
<b>Other Financing Sources (Uses)</b>		
Lease revenue refunding bonds issued	\$ -	\$ -
Payment to refunded bond escrow agent	-	-
Discount on bonds/notes issued	-	-
Proceeds from sale of capital assets	140,745	-
	<u>140,745</u>	<u>-</u>
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 140,745</b>	<b>\$ -</b>
<b>Net Change in Fund Balance</b>	<b>\$ 216,349</b>	<b>\$ (4,148)</b>
<b>Fund Balance - January 1</b>	<b>7,461,643</b>	<b>1,354,680</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>8,932</b>
	<u>-</u>	<u>8,932</u>
<b>Fund Balance - December 31</b>	<b>\$ 7,677,992</b>	<b>\$ 1,359,464</b>
	<u>7,677,992</u>	<u>1,359,464</u>

**EXHIBIT 5**  
**(Continued)**

<u>Family Services</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ -	\$ 1,280,000	\$ -	\$ -	\$ 1,280,000
-	(4,705,000)	-	-	(4,705,000)
-	(9,600)	-	-	(9,600)
-	-	-	-	140,745
<u>\$ -</u>	<u>\$ (3,434,600)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,293,855)</u>
\$ 870,645	\$ (3,400,521)	\$ -	\$ 46,804	\$ (2,270,871)
4,832,444	3,683,075	51,641	41,890	17,425,373
-	-	-	-	8,932
<u>\$ 5,703,089</u>	<u>\$ 282,554</u>	<u>\$ 51,641</u>	<u>\$ 88,694</u>	<u>\$ 15,163,434</u>

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

*EXHIBIT 6*

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**Net change in fund balance - total governmental funds (Exhibit 5) \$ (2,270,871)**

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

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

Deferred revenue - December 31	\$ 3,020,681	
Deferred revenue - January 1	<u>(3,533,130)</u>	(512,449)

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

Expenditures for general capital assets and infrastructure	\$ 4,466,256	
Net book value of assets sold	(27,229)	
Current year depreciation	<u>(1,720,890)</u>	2,718,137

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net assets.

Proceeds of new debt		
Lease revenue refunding bonds issued	\$ (1,280,000)	
Discount on bonds issued	9,600	
Issuance costs on bonds issued	<u>17,000</u>	(1,253,400)

Principal repayments		
General obligation bonds	\$ 3,675,000	
Lease revenue bonds	1,305,000	
East Central Solid Waste Commission liability	<u>215,460</u>	5,195,460

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

Change in matured interest payable	\$ 80,646	
Change in compensated absences	(154,767)	
Change in inventories	8,932	
Current year amortization of issuance costs, discounts, and premiums	<u>(6,445)</u>	<u>(71,634)</u>

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 3,805,243**

**FIDUCIARY FUNDS**

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**MILLE LACS COUNTY  
MILACA, MINNESOTA**

*EXHIBIT 7*

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2007**

	<b>Private-Purpose Trust</b>	<b>Agency</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 123,705	\$ 790,877
Accrued interest receivable	131	-
<b>Total Assets</b>	<b>\$ 123,836</b>	<b>\$ 790,877</b>
<b><u>Liabilities</u></b>		
Accounts payable	\$ 1,119	\$ -
Due to other governments	-	790,877
<b>Total Liabilities</b>	<b>\$ 1,119</b>	<b>\$ 790,877</b>
<b><u>Net Assets</u></b>		
Net assets, restricted for other purposes	<b>\$ 122,717</b>	

MILLE LACS COUNTY  
MILACA, MINNESOTA

EXHIBIT 8

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
PRIVATE-PURPOSE TRUST FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>Additions</u>	
Investment income	\$ 1,120
Miscellaneous	<u>144,844</u>
<b>Total Additions</b>	<b>\$ 145,964</b>
<u>Deductions</u>	
Payments in accordance with trust agreements	<u>158,314</u>
<b>Change in net assets</b>	<b>\$ (12,350)</b>
<b>Net Assets - January 1</b>	<b><u>135,067</u></b>
<b>Net Assets - December 31</b>	<b><u><u>122,717</u></u></b>

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007**

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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, 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Mille Lacs County was established May 23, 1857, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. 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 Coordinator, who is an appointed officer, serves as the Clerk of the Board of Commissioners but does not vote in its decisions.

For financial reporting purposes, Mille Lacs County has included all funds, organizations, account groups, agencies, boards, commissions, and authorities, and has considered all potential component units for which the County is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause Mille Lacs County's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the County to impose its will on that organization; or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the County.

As required by accounting principles generally accepted in the United States of America, these financial statements present Mille Lacs County (the primary government) and its component unit for which the County is financially accountable.

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Blended Component Unit

The Mille Lacs County Housing and Redevelopment Authority (HRA), a blended component unit of Mille Lacs County, is governed by a five-member Board consisting of the Mille Lacs County Board of Commissioners and has the power to levy taxes, issue bonds, and enter into contracts. The HRA was established to assist with the implementation of a redevelopment plan to promote economic development within Mille Lacs County. Although it is legally separate from the County, the activity of the HRA is included in the Mille Lacs County reporting entity as the Housing and Redevelopment Authority Special Revenue Fund because the HRA's governing body is the same as the governing body of Mille Lacs County. Separate financial statements are not available for the Mille Lacs County HRA.

Joint Ventures

The County participates in several joint ventures described in Note 5.C.

B. Basic Financial Statements

1. Government-Wide Statements

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

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

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, principal, interest, and related costs of general long-term debt.

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Capital Projects Fund is used to account for the financial resources to be used for capital acquisition, construction, or improvement of capital assets, exclusive of infrastructure (roads, bridges, etc.).

Additionally, the County reports the following fund types:

The Private-Purpose Trust Fund accounts for funds that the County Auditor/Treasurer is holding for the cemetery, missing heirs, and Court Administrator.

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

C. Measurement Focus and Basis of Accounting

The government-wide and 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. Mille Lacs County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2007, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2007 were \$729,596.

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

2. Receivables and Payables

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

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

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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

3. 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. Reported inventories are equally offset by reserved fund balance to indicate that they do not constitute available spendable resources.

4. Capital Assets

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

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

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

<u>Assets</u>	<u>Years</u>
Land improvements	20 - 35
Buildings	25 - 40
Machinery and equipment	3 - 15
Infrastructure	15 - 70

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

5. Compensated Absences

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

6. Deferred Revenue

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

7. Long-Term Obligations

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

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

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

8. 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 that are subject to change.

9. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations

The following funds had expenditures in excess of budget at the function level for the year ended December 31, 2007.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund			
Capital outlay			
General government	\$ 100,457	\$ -	\$ 100,457
Public safety	209,273	-	209,273
Highways and streets	1,112,774	-	1,112,774
Special Revenue Funds			
Road and Bridge			
Current			
Highways and streets	6,810,469	6,004,701	805,768
Family Services			
Current			
Human services	7,856,489	7,854,549	1,940

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 15,365,956
Petty cash and change funds	1,400
Departmental cash	19,745
Statement of fiduciary net assets	
Cash and pooled investments	
Private-purpose trust	123,705
Agency funds	<u>790,877</u>
Total Cash and Investments	<u>\$ 16,301,683</u>

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

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

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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 other than complying with the requirements of Minnesota statutes. As of December 31, 2007, 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

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

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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.

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. At December 31, 2007, none of the County's investments were subject to custodial credit risk.

**MILLE LACS COUNTY  
MILACA, 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 deposit and investment balances at December 31, 2007, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Investment pools/mutual funds MAGIC Fund	N/R	N/A	15.5%	N/A	\$ 1,649,868
Negotiable certificates of deposit	N/A	N/A	84.5%	Various	8,983,000
Total investments					\$ 10,632,868
Deposits					5,647,670
Petty cash and change funds					1,400
Departmental cash					19,745
Total Cash and Investments					\$ 16,301,683

N/A - Not Applicable

N/R - Not Rated

2. Receivables

Property Taxes and Special Assessments

Property taxes and special assessments, which remain unpaid at December 31 are delinquent. No allowance for uncollectible taxes/special assessments has been provided because such amounts are not expected to be material.

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,360,055	\$ 477,678	\$ 11,200	\$ 1,826,533
Construction in progress	2,361,995	1,472,300	2,361,995	1,472,300
<b>Total capital assets not depreciated</b>	<b>\$ 3,722,050</b>	<b>\$ 1,949,978</b>	<b>\$ 2,373,195</b>	<b>\$ 3,298,833</b>
Capital assets depreciated				
Land improvements	\$ 508,557	\$ -	\$ -	\$ 508,557
Buildings	8,700,385	2,548,025	30,000	11,218,410
Machinery and equipment	6,150,952	273,343	111,723	6,312,572
Infrastructure	45,138,645	2,056,905	-	47,195,550
<b>Total capital assets depreciated</b>	<b>\$ 60,498,539</b>	<b>\$ 4,878,273</b>	<b>\$ 141,723</b>	<b>\$ 65,235,089</b>
Less: accumulated depreciation for				
Land improvements	\$ 255,403	\$ 20,342	\$ -	\$ 275,745
Buildings	3,291,608	281,107	30,000	3,542,715
Machinery and equipment	4,084,879	475,526	95,694	4,464,711
Infrastructure	10,903,209	943,915	-	11,847,124
<b>Total accumulated depreciation</b>	<b>\$ 18,535,099</b>	<b>\$ 1,720,890</b>	<b>\$ 125,694</b>	<b>\$ 20,130,295</b>
<b>Total capital assets depreciated, net</b>	<b>\$ 41,963,440</b>	<b>\$ 3,157,383</b>	<b>\$ 16,029</b>	<b>\$ 45,104,794</b>
Governmental Activities Capital Assets, Net	<u>\$ 45,685,490</u>	<u>\$ 5,107,361</u>	<u>\$ 2,389,224</u>	<u>\$ 48,403,627</u>

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

Governmental Activities	
General government	\$ 374,591
Public safety	99,971
Highways and streets, including depreciation of infrastructure assets	1,229,102
Human services	16,448
Health	310
Conservation of natural resources	468
<b>Total Depreciation Expense - Governmental Activities</b>	<u>\$ 1,720,890</u>

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

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3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2007, was as follows:

Due To/From Other Funds

	Receivable	Payable
Major Governmental Funds		
General Fund	\$ 23,745	\$ -
Road and Bridge Special Revenue Fund	-	508
Family Services Special Revenue Fund	-	23,237
	\$ 23,745	\$ 23,745
Total Due To/From Other Funds	\$ 23,745	\$ 23,745

The interfund balances above represent fourth quarter 2007 postage and long-distance phone charges for the Family Services Special Revenue Fund and the fourth quarter long-distance charge for the Road and Bridge Special Revenue Fund.

C. Liabilities

1. Payables

Payables at December 31, 2007, were as follows:

	Governmental Activities	Fiduciary Funds
Accounts	\$ 787,175	\$ 1,119
Salaries	413,837	-
Contracts	383,369	-
Due to other governments	250,686	790,877
	\$ 1,835,067	\$ 791,996
Total Payables	\$ 1,835,067	\$ 791,996

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Deferred Revenue

Deferred revenue consists of taxes and special assessments receivable, state and federal grants that are not collected soon enough after year-end to pay liabilities of the current period, and state and federal grants received but not yet earned. Deferred revenue at December 31, 2007, is summarized below by fund:

	<u>Taxes</u>	<u>Special Assessments</u>	<u>Grants</u>	<u>Total</u>
Governmental Funds				
General	\$ 389,037	\$ 15,019	\$ -	\$ 404,056
Road and Bridge Special Revenue	80,193	-	2,329,182	2,409,375
Family Services Special Revenue	175,344	-	-	175,344
Debt Service	31,906	-	-	31,906
Total	<u>\$ 676,480</u>	<u>\$ 15,019</u>	<u>\$ 2,329,182</u>	<u>\$ 3,020,681</u>
Deferred revenue				
Unavailable	\$ 676,480	\$ 15,019	\$ 2,329,182	\$ 3,020,681
Unearned	-	-	-	-
Total	<u>\$ 676,480</u>	<u>\$ 15,019</u>	<u>\$ 2,329,182</u>	<u>\$ 3,020,681</u>

3. Long-Term Debt

<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, 2007</u>
2005 G.O. Law Enforcement Center Refunding Bonds	02/01/2019	\$245,000 - \$365,000	2.35 - 4.00	\$ 3,555,000	\$ 3,555,000
2007 HRA Lease Revenue Refunding Bonds	02/01/2019	\$85,000 - \$130,000	4.00 - 4.40	1,280,000	1,280,000
Total				<u>\$ 4,835,000</u>	<u>\$ 4,835,000</u>

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2007, were as follows:

Year Ending December 31	General Obligation Bonds		Lease Revenue Bonds	
	Principal	Interest	Principal	Interest
2008	\$ 245,000	\$ 115,686	\$ 95,000	\$ 52,065
2009	250,000	109,683	85,000	48,465
2010	260,000	102,983	90,000	44,965
2011	265,000	95,499	95,000	41,265
2012	280,000	87,180	95,000	37,346
2013 - 2017	1,540,000	285,850	560,000	118,565
2018 - 2019	715,000	28,725	260,000	11,424
Total	<u>\$ 3,555,000</u>	<u>\$ 825,606</u>	<u>\$ 1,280,000</u>	<u>\$ 354,095</u>

Year Ending December 31	Total	
	Principal	Interest
2008	\$ 340,000	\$ 167,751
2009	335,000	158,148
2010	350,000	147,948
2011	360,000	136,764
2012	375,000	124,526
2013 - 2017	2,100,000	404,415
2018 - 2019	975,000	40,149
Total	<u>\$ 4,835,000</u>	<u>\$ 1,179,701</u>

In 2005, the County issued \$3,555,000 G. O. Law Enforcement Center Refunding Bonds to refund the 1997 G. O. Law Enforcement Center Bonds on the crossover date in 2007. In 2007, the 1997 bonds were called, and the first payments on the 2005 bonds will be in 2008.

In 2007, the County issued \$1,280,000 HRA Lease Revenue Refunding Bonds to current refund the 1998 HRA Lease Revenue Bonds. In 2007, the 1998 bonds were called, and the first interest payment on the 2007 bonds was made in 2007.

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 7,230,000	\$ -	\$ 3,675,000	\$ 3,555,000	\$ 245,000
Lease revenue bonds	1,305,000	1,280,000	1,305,000	1,280,000	95,000
East Central Solid Waste Commission	215,460	-	215,460	-	-
Compensated absences	1,211,521	154,767	-	1,366,288	65,289
Less: discounts on bonds	(26,897)	(9,600)	(2,807)	(33,690)	-
Long-Term Liabilities	<u>\$ 9,935,084</u>	<u>\$ 1,425,167</u>	<u>\$ 5,192,653</u>	<u>\$ 6,167,598</u>	<u>\$ 405,289</u>

D. Contract Commitments

The County has entered into contract commitments for construction of the North Maintenance Facility, which has not been completed as of December 31, 2007. The amount to be completed on this project is \$102,721. The County also has active road construction projects as of December 31, 2007, with an uncompleted amount of \$771,765.

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jail/dispatcher, or as a supervisor of correctional guards or officers or of joint jail/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates are covered by the Public Employees Correctional Fund.

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

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

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

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

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4. 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.

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](http://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 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 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent. Public Employees Police and Fire Fund members were required to contribute 7.80 percent of their annual covered salary in 2007. That rate increased to 8.60 percent in 2008. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2007 and 2008:

	<u>2007</u>	<u>2008</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50
Public Employees Police and Fire Fund	11.70	12.90
Public Employees Correctional Fund	8.75	8.75

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2007, 2006, and 2005, 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
2007	\$ 442,545	\$ 142,722	\$ 147,167
2006	399,787	107,353	132,936
2005	341,752	91,794	125,619

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

B. Defined Contribution Plan

One Commissioner of Mille Lacs County is covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA 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. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2007, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 1,021	\$ 1,021
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$400,000 per claim in 2007 and \$410,000 per claim in 2008. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

B. Contingent Liabilities

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

The County, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the County.

C. Joint Ventures

East Central Solid Waste Commission

The East Central Solid Waste Commission was established in March 1988 by a joint powers agreement among Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to conduct a solid waste management program on behalf of the participating counties. The Commission is an organized joint venture having the powers, duties, and privileges granted joint powers by Minn. Stat. § 471.59. The Commission comprises five members--one voting member from each County. At its annual meeting, the Board of County Commissioners of each county chooses a member and an alternate, both County Commissioners, as representatives of the County. Each county has one voting member and, in the absence of the voting member, the alternate votes.

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

East Central Solid Waste Commission (Continued)

Each county's proportionate share of the total operating costs is based on the most recent census data available and is to be adjusted upon the admission of additional counties or the withdrawal of counties. The Commission will remain in existence so long as two or more counties remain as parties to the agreement or until January 1, 2008. Upon dissolution of the Commission, there will be an accounting to determine assets and liabilities. The assets of the Commission will be liquidated and, after payment of liabilities, the proceeds will be distributed to the counties based on their respective ratios set by the most recent census data.

Each county's share of the Commission's assets, liabilities, and equities cannot be accurately determined since it will fluctuate with census data rather than ownership interest. Following is a summary of the financial information as of and for the year ended December 31, 2006 (most recent figures available):

Total Assets	<u>\$ 13,284,122</u>
Total Liabilities	\$ 3,599,628
Total Equity	<u>9,684,494</u>
Total Liabilities and Equity	<u>\$ 13,284,122</u>
Operating and nonoperating revenues	\$ 4,454,263
Operating and nonoperating expenses	<u>3,724,789</u>
Net income (loss)	\$ 729,474
Add: Net change in contributed capital	<u>761,588</u>
Change in Equity	<u>\$ 1,491,062</u>

Complete financial statements of the East Central Solid Waste Commission can be obtained from:

East Central Solid Waste Commission  
1756 - 180th Avenue  
Mora, Minnesota 55051

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

East Central Regional Library

The East Central Regional Library was established by a joint powers agreement among Aitkin, Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to provide an efficient and improved regional public library service. The Library Board comprises 18 members--one County Board member and two appointees from each member County. Mille Lacs County's contribution for 2007 was \$230,363.

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

East Central Regional Library  
244 South Birch  
Cambridge, Minnesota 55008

Snake River Watershed Management Board

The Snake River Watershed Management Board (SRWMB) was established in April 1993, pursuant to Minn. Stat. § 471.59, as a joint powers entity. Its purpose is to coordinate the member counties' water plans and to develop objectives to promote sound hydrologic management of the water and the related land resources. Members are Aitkin, Kanabec, Mille Lacs, and Pine Counties. Financial responsibility exists because once the SRWMB has established a budget and determined which projects will be undertaken, each member county is required by the agreement to provide appropriate financial support. The SRWMB establishes an annual budget, and participation in the administrative costs is as follows:

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

Complete financial statements of the SRWMB can be obtained from:

Snake River Watershed Management Board  
Rural Route 3, Box 253  
Mora, Minnesota 55051

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

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

D. Subsequent Event

On August 5, 2008, the County issued \$7,985,000 General Obligation Capital Improvement Bonds, Series 2008, to finance the cost of a county justice facility, including courtrooms and related administrative functions.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**MILLE LACS COUNTY  
MILACA, MINNESOTA**

**Schedule 1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 6,858,593	\$ 6,858,593	\$ 6,985,336	\$ 126,743
Special assessments	115,000	115,000	149,951	34,951
Licenses and permits	379,340	379,340	417,034	37,694
Intergovernmental	2,827,896	2,827,896	3,081,639	253,743
Charges for services	1,431,295	1,431,295	1,964,617	533,322
Fines and forfeits	48,000	48,000	71,312	23,312
Gifts and contributions	2,000	2,000	10,311	8,311
Investment earnings	300,400	300,400	729,596	429,196
Miscellaneous	236,450	236,450	527,593	291,143
<b>Total Revenues</b>	<b>\$ 12,198,974</b>	<b>\$ 12,198,974</b>	<b>\$ 13,937,389</b>	<b>\$ 1,738,415</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 197,278	\$ 197,278	\$ 169,952	\$ 27,326
Courts	48,000	48,000	38,414	9,586
Law library	45,438	45,438	42,861	2,577
County administration	365,900	365,900	351,353	14,547
Coordinator	186,498	186,498	186,526	(28)
Auditor/treasurer	475,856	475,856	530,148	(54,292)
Assessor	574,056	574,056	547,632	26,424
Data processing	281,515	281,515	254,001	27,514
Attorney	1,034,858	1,034,858	1,073,553	(38,695)
Recorder	287,037	287,037	300,778	(13,741)
Planning and zoning	653,532	653,532	683,952	(30,420)
Buildings and plant	612,541	612,541	533,538	79,003
Veterans service officer	109,861	109,861	124,048	(14,187)
Other general government	264,483	264,483	60,333	204,150
<b>Total general government</b>	<b>\$ 5,136,853</b>	<b>\$ 5,136,853</b>	<b>\$ 4,897,089</b>	<b>\$ 239,764</b>
<b>Public safety</b>				
Sheriff	\$ 2,117,396	\$ 2,117,396	\$ 2,366,623	\$ (249,227)
Boat and water safety	70,271	70,271	89,915	(19,644)
Coroner	69,336	69,336	69,336	-
E-911 system	60,400	60,400	16,452	43,948
County jail	3,234,793	3,234,793	2,968,851	265,942
Caseload reduction	82,078	82,078	84,455	(2,377)
Probation and parole	762,123	762,123	676,205	85,918
Civil defense	47,111	47,111	147,701	(100,590)
<b>Total public safety</b>	<b>\$ 6,443,508</b>	<b>\$ 6,443,508</b>	<b>\$ 6,419,538</b>	<b>\$ 23,970</b>

The notes to the required supplementary information are an integral part of this schedule.

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

*Schedule 1*  
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Sanitation</b>				
Hazardous waste	\$ 8,300	\$ 8,300	\$ 10,067	\$ (1,767)
Other sanitation	106,260	106,260	96,920	9,340
<b>Total sanitation</b>	<b>\$ 114,560</b>	<b>\$ 114,560</b>	<b>\$ 106,987</b>	<b>\$ 7,573</b>
<b>Health</b>				
Nursing service	<b>\$ 681,600</b>	<b>\$ 681,600</b>	<b>\$ 569,060</b>	<b>\$ 112,540</b>
<b>Culture and recreation</b>				
Historical society	<b>\$ 9,000</b>	<b>\$ 9,000</b>	<b>\$ 9,000</b>	<b>\$ -</b>
<b>Conservation of natural resources</b>				
County extension	\$ 124,197	\$ 124,197	\$ 97,351	\$ 26,846
Soil and water conservation	74,908	74,908	74,908	-
Agricultural society	12,500	12,500	12,500	-
Other	4,379	4,379	4,379	-
<b>Total conservation of natural resources</b>	<b>\$ 215,984</b>	<b>\$ 215,984</b>	<b>\$ 189,138</b>	<b>\$ 26,846</b>
<b>Economic development</b>				
Community development	<b>\$ 18,106</b>	<b>\$ 18,106</b>	<b>\$ 18,106</b>	<b>\$ -</b>
<b>Intergovernmental</b>				
<b>Culture and recreation</b>				
Library	<b>\$ 230,363</b>	<b>\$ 230,363</b>	<b>\$ 230,363</b>	<b>\$ -</b>
<b>Capital outlay</b>				
General government	\$ -	\$ -	\$ 100,457	\$ (100,457)
Public safety	-	-	209,273	(209,273)
Highways and streets	-	-	1,112,774	(1,112,774)
<b>Total capital outlay</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,422,504</b>	<b>\$ (1,422,504)</b>
<b>Total Expenditures</b>	<b>\$ 12,849,974</b>	<b>\$ 12,849,974</b>	<b>\$ 13,861,785</b>	<b>\$ (1,011,811)</b>

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

*Schedule 1*  
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Excess of Revenues Over (Under) Expenditures</b>	\$ (651,000)	\$ (651,000)	\$ 75,604	\$ 726,604
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital assets	<u>3,000</u>	<u>3,000</u>	<u>140,745</u>	<u>137,745</u>
<b>Net Change in Fund Balance</b>	\$ (648,000)	\$ (648,000)	\$ 216,349	\$ 864,349
<b>Fund Balance - January 1</b>	<u>7,461,643</u>	<u>7,461,643</u>	<u>7,461,643</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u><u>\$ 6,813,643</u></u>	<u><u>\$ 6,813,643</u></u>	<u><u>\$ 7,677,992</u></u>	<u><u>\$ 864,349</u></u>

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,237,373	\$ 1,237,373	\$ 1,271,085	\$ 33,712
Licenses and permits	15,000	15,000	10,696	(4,304)
Intergovernmental	4,994,208	4,994,208	5,594,371	600,163
Charges for services	30,500	30,500	54,933	24,433
Miscellaneous	26,000	26,000	25,180	(820)
<b>Total Revenues</b>	<b>\$ 6,303,081</b>	<b>\$ 6,303,081</b>	<b>\$ 6,956,265</b>	<b>\$ 653,184</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highway and streets</b>				
Administration	\$ 514,569	\$ 514,569	\$ 588,723	\$ (74,154)
Maintenance	1,121,942	1,121,942	925,383	196,559
Construction	3,877,409	3,877,409	4,711,583	(834,174)
Equipment maintenance and shop	490,781	490,781	576,106	(85,325)
Other	-	-	8,674	(8,674)
<b>Total highways and streets</b>	<b>\$ 6,004,701</b>	<b>\$ 6,004,701</b>	<b>\$ 6,810,469</b>	<b>\$ (805,768)</b>
<b>Intergovernmental</b>				
Highways and streets	149,944	149,944	149,944	-
<b>Total Expenditures</b>	<b>\$ 6,154,645</b>	<b>\$ 6,154,645</b>	<b>\$ 6,960,413</b>	<b>\$ (805,768)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 148,436</b>	<b>\$ 148,436</b>	<b>\$ (4,148)</b>	<b>\$ (152,584)</b>
<b>Fund Balance - January 1</b>	<b>1,354,680</b>	<b>1,354,680</b>	<b>1,354,680</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>8,932</b>	<b>8,932</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,503,116</b>	<b>\$ 1,503,116</b>	<b>\$ 1,359,464</b>	<b>\$ (143,652)</b>

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE  
FAMILY SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 3,290,832	\$ 3,290,832	\$ 3,273,883	\$ (16,949)
Intergovernmental	3,879,734	3,879,734	4,580,810	701,076
Charges for services	44,000	44,000	50,503	6,503
Miscellaneous	595,983	595,983	821,938	225,955
<b>Total Revenues</b>	<b>\$ 7,810,549</b>	<b>\$ 7,810,549</b>	<b>\$ 8,727,134</b>	<b>\$ 916,585</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,715,750	\$ 1,715,750	\$ 1,822,966	\$ (107,216)
Social services	6,138,799	6,138,799	6,033,523	105,276
<b>Total Expenditures</b>	<b>\$ 7,854,549</b>	<b>\$ 7,854,549</b>	<b>\$ 7,856,489</b>	<b>\$ (1,940)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (44,000)</b>	<b>\$ (44,000)</b>	<b>\$ 870,645</b>	<b>\$ 914,645</b>
<b>Fund Balance - January 1</b>	<b>4,832,444</b>	<b>4,832,444</b>	<b>4,832,444</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,788,444</b>	<b>\$ 4,788,444</b>	<b>\$ 5,703,089</b>	<b>\$ 914,645</b>

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**MILLE LACS COUNTY  
MILACA, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2007

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except for the Ditch Special Revenue Fund, the Debt Service Fund, and the Capital Projects Fund. All annual appropriations lapse at fiscal year-end unless specifically carried over to the next budget year by Board action.

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the County Auditor/Treasurer so that a budget can be prepared. Before October 31, 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. The County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the function level.

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

2. Excess of Expenditures Over Appropriations

The following major governmental funds had expenditures in excess of budget at the function level for the year ended December 31, 2007:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund			
Capital outlay			
General government	\$ 110,457	\$ -	\$ 100,457
Public safety	209,273	-	209,273
Highways and streets	1,112,774	-	1,112,774
Road and Bridge Special Revenue Fund			
Current			
Highways and streets	6,810,469	6,004,701	805,768
Family Services Special Revenue Fund			
Current			
Human services	7,856,489	7,854,549	1,940

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**SUPPLEMENTARY INFORMATION**

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**COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS**

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**MILLE LACS COUNTY  
MILACA, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Ditch - to account for the financing of County ditch construction and repairs deemed to benefit the properties against which special assessments are levied.

Community Health Services - to account for Mille Lacs and Isanti Counties' Cooperative Community Health Services. Financing is provided by a state grant.

Housing and Redevelopment Authority - to account for the activities of the Mille Lacs County Housing and Redevelopment Authority.

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**MILLE LACS COUNTY  
MILACA, MINNESOTA**

**Statement 1**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2007**

	<b>Special Revenue Funds</b>			<b>Total</b>
	<b>Ditch</b>	<b>Community Health Services</b>	<b>Housing and Redevelopment Authority</b>	
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 46,088	\$ 25,670	\$ 10,237	\$ 81,995
Accounts receivable	-	330	-	330
Due from other governments	-	10,471	-	10,471
<b>Total Assets</b>	<b>\$ 46,088</b>	<b>\$ 36,471</b>	<b>\$ 10,237</b>	<b>\$ 92,796</b>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ 295	\$ -	\$ 295
Salaries payable	-	3,771	-	3,771
Due to other governments	-	36	-	36
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ 4,102</b>	<b>\$ -</b>	<b>\$ 4,102</b>
<b>Fund Balances</b>				
Unreserved				
Undesignated	46,088	32,369	10,237	88,694
<b>Total Liabilities and Fund Balances</b>	<b>\$ 46,088</b>	<b>\$ 36,471</b>	<b>\$ 10,237</b>	<b>\$ 92,796</b>

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

*Statement 2*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Special Revenue Funds</b>			<b>Total</b>
	<b>Ditch</b>	<b>Community Health Services</b>	<b>Housing and Redevelopment Authority</b>	
<b>Revenues</b>				
Taxes	\$ -	\$ -	\$ 90,471	\$ 90,471
Special assessments	7,284	-	-	7,284
Intergovernmental	-	127,410	-	127,410
Charges for services	-	12,184	-	12,184
Miscellaneous	3,812	1,817	-	5,629
<b>Total Revenues</b>	<b>\$ 11,096</b>	<b>\$ 141,411</b>	<b>\$ 90,471</b>	<b>\$ 242,978</b>
<b>Expenditures</b>				
<b>Current</b>				
Health	\$ -	\$ 104,909	\$ -	\$ 104,909
Conservation of natural resources	794	-	-	794
Economic development	-	-	90,471	90,471
<b>Total Expenditures</b>	<b>\$ 794</b>	<b>\$ 104,909</b>	<b>\$ 90,471</b>	<b>\$ 196,174</b>
<b>Net Change in Fund Balance</b>	<b>\$ 10,302</b>	<b>\$ 36,502</b>	<b>\$ -</b>	<b>\$ 46,804</b>
<b>Fund Balance - January 1</b>	<b>35,786</b>	<b>(4,133)</b>	<b>10,237</b>	<b>41,890</b>
<b>Fund Balance - December 31</b>	<b>\$ 46,088</b>	<b>\$ 32,369</b>	<b>\$ 10,237</b>	<b>\$ 88,694</b>

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE  
COMMUNITY HEALTH SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 118,603	\$ 118,603	\$ 127,410	\$ 8,807
Charges for services	30,000	30,000	12,184	(17,816)
Miscellaneous	2,500	2,500	1,817	(683)
<b>Total Revenues</b>	<b>\$ 151,103</b>	<b>\$ 151,103</b>	<b>\$ 141,411</b>	<b>\$ (9,692)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Health</b>				
Nursing service	151,103	151,103	104,909	46,194
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 36,502</b>	<b>\$ 36,502</b>
<b>Fund Balance - January 1</b>	<b>(4,133)</b>	<b>(4,133)</b>	<b>(4,133)</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ (4,133)</b>	<b>\$ (4,133)</b>	<b>\$ 32,369</b>	<b>\$ 36,502</b>

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE  
HOUSING AND REDEVELOPMENT AUTHORITY SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 95,463	\$ 95,463	\$ 90,471	\$ (4,992)
<b>Expenditures</b>				
<b>Current</b>				
Economic development	95,463	95,463	90,471	4,992
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Fund Balance - January 1</b>	<b>10,237</b>	<b>10,237</b>	<b>10,237</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 10,237</b>	<b>\$ 10,237</b>	<b>\$ 10,237</b>	<b>\$ -</b>

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

Region Seven - to account for the funds collected by the County and disbursed to the Region Seven East Development Commission.

School Districts - to account for the school districts' share of taxes collected by the County.

State Agency - to account for the receipt and remittance of funds collected for the State of Minnesota and other local units of government.

Taxes and Penalties - to account for collection of real estate taxes and forfeited tax sale proceeds and their payment to various taxing districts.

County Agency - to account for the collection and remittance of funds for the employee flexible spending account plan and employee dental insurance.

Towns and Cities - to account for the collection and payment of taxes due to towns and cities.

North Central Drug Task Force - to account for the receipts and disbursements of the North Central Drug Task Force.

Family Ties - to account for the receipts and disbursements of the Family Ties Collaborative.

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**MILLE LACS COUNTY  
MILACA, MINNESOTA**

*Statement 3*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>REGION SEVEN</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 29,400	\$ 29,400	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 29,400	\$ 29,400	\$ -
 <b><u>SCHOOL DISTRICTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 4,423,070	\$ 4,423,070	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 4,423,070	\$ 4,423,070	\$ -
 <b><u>STATE AGENCY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 204	\$ 1,516,057	\$ 1,516,097	\$ 164
<b><u>Liabilities</u></b>				
Due to other governments	\$ 204	\$ 1,516,057	\$ 1,516,097	\$ 164

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

*Statement 3  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>233,457</u>	\$ <u>26,913,755</u>	\$ <u>26,814,335</u>	\$ <u>332,877</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>233,457</u>	\$ <u>26,913,755</u>	\$ <u>26,814,335</u>	\$ <u>332,877</u>
 <b><u>COUNTY AGENCY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>5,047</u>	\$ <u>206,715</u>	\$ <u>208,561</u>	\$ <u>3,201</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>5,047</u>	\$ <u>206,715</u>	\$ <u>208,561</u>	\$ <u>3,201</u>
 <b><u>TOWNS AND CITIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>-</u>	\$ <u>5,776,498</u>	\$ <u>5,776,498</u>	\$ <u>-</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>-</u>	\$ <u>5,776,498</u>	\$ <u>5,776,498</u>	\$ <u>-</u>

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

*Statement 3  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>NORTH CENTRAL DRUG TASK FORCE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>58,829</u>	\$ <u>115,731</u>	\$ <u>102,240</u>	\$ <u>72,320</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>58,829</u>	\$ <u>115,731</u>	\$ <u>102,240</u>	\$ <u>72,320</u>
 <b><u>FAMILY TIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>526,227</u>	\$ <u>381,796</u>	\$ <u>525,708</u>	\$ <u>382,315</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>526,227</u>	\$ <u>381,796</u>	\$ <u>525,708</u>	\$ <u>382,315</u>
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>823,764</u>	\$ <u>39,363,022</u>	\$ <u>39,395,909</u>	\$ <u>790,877</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>823,764</u>	\$ <u>39,363,022</u>	\$ <u>39,395,909</u>	\$ <u>790,877</u>

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## **OTHER SCHEDULES**

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**MILLE LACS COUNTY  
MILACA, MINNESOTA**

**Schedule 6**

**SCHEDULE OF DEPOSITS AND INVESTMENTS  
DECEMBER 31, 2007**

	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Fair Value</u>
<b>Pooled Deposits and Investments</b>			
<b>Checking accounts</b>			
First National Bank of Milaca	Variable	Continuous	<u>\$ 1,728,048</u>
<b>Savings accounts</b>			
First National Bank of Milaca	Variable	Continuous	<u>\$ 231,638</u>
<b>Certificates of deposit</b>			
First National Bank of Milaca	3.50	Various	\$ 10,000
Peoples Bank of Commerce	5.05	Various	1,216,837
Bremer Bank	4.70 to 4.85	Various	<u>2,434,132</u>
<b>Total certificates of deposit</b>			<u>\$ 3,660,969</u>
<b>Negotiable certificates of deposit</b>			
AmBac Securities, Inc.	4.70 to 5.50	Various	<u>\$ 8,983,000</u>
<b>MAGIC Fund</b>			
AmBac Securities, Inc.	Variable	Continuous	<u>\$ 1,649,868</u>
<b>Total pooled deposits and investments</b>			<u>\$ 16,253,523</u>
<b>Private-Purpose Trust Fund Investments</b>			
<b>Certificates of deposit</b>			
First National Bank of Milaca	4.20 to 4.55	Various	\$ 13,985
Bremer Bank	3.90 to 4.25	Various	6,260
Peoples Bank of Commerce	3.45	Various	<u>6,770</u>
<b>Total Private-Purpose Trust Fund investments</b>			<u>\$ 27,015</u>
<b>Total Deposits and Investments</b>			<u>\$ 16,280,538</u>

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

*Schedule 7*

**TAX CAPACITY, TAX CAPACITY RATES, LEVIES, AND PERCENTAGE OF COLLECTIONS**

	2006		2007		2008	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
<b>Tax Capacity</b>						
Real property	\$ 17,615,300		\$ 20,295,308		\$ 22,505,292	
Personal property	268,392		301,913		291,762	
<b>Total Tax Capacity</b>	<b><u>\$ 17,883,692</u></b>		<b><u>\$ 20,597,221</u></b>		<b><u>\$ 22,797,054</u></b>	
<b>Taxes Levied for County Purposes</b>						
General	\$ 7,901,922	40.123	\$ 8,460,926	37.424	\$ 10,056,277	40.614
Road and Bridge	1,844,562	10.224	1,430,507	6.782	1,019,352	4.239
Welfare	3,112,588	16.304	3,901,765	18.037	3,901,765	16.153
Debt Service	678,257	3.907	541,998	2.701	522,871	2.334
<b>Total Levy for County Purposes</b>	<b><u>\$ 13,537,329</u></b>	<b><u>70.558</u></b>	<b><u>\$ 14,335,196</u></b>	<b><u>64.944</u></b>	<b><u>\$ 15,500,265</u></b>	<b><u>63.340</u></b>
<b>Less Homestead Credits Payable by State</b>	<b><u>(1,286,206)</u></b>		<b><u>(1,300,262)</u></b>		<b><u>(1,305,109)</u></b>	
<b>Net Levy Certified to State</b>	<b><u>\$ 12,251,123</u></b>		<b><u>\$ 13,034,934</u></b>		<b><u>\$ 14,195,156</u></b>	
<b>Less Market Value Credits Payable by State</b>	<b><u>(1,212,039)</u></b>		<b><u>(1,176,195)</u></b>		<b><u>(1,140,600)</u></b>	
<b>Net Levy for County Purposes</b>	<b><u>\$ 11,039,084</u></b>		<b><u>\$ 11,858,739</u></b>		<b><u>\$ 13,054,556</u></b>	
<b>Percentage of Tax Collections for All Purposes</b>	<b>95.96%</b>		<b>95.75%</b>		<b>-</b>	

MILLE LACS COUNTY  
MILACA, MINNESOTA

*Schedule 8*

BALANCE SHEET - BY DITCH  
DITCH SPECIAL REVENUE FUND  
DECEMBER 31, 2007

	Assets	Fund
	Cash and Pooled Investments	Balance Undesignated
<b>County Ditch</b>		
2	\$ 599	\$ 599
3	13,030	13,030
4	19,333	19,333
5	5,235	5,235
14	7,891	7,891
	<hr/>	<hr/>
<b>Total</b>	<b>\$ 46,088</b>	<b>\$ 46,088</b>

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

**Schedule 9**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**Shared Revenue**

**State**

Highway users tax	\$	4,839,426
PERA rate reimbursement		30,786
Disparity reduction aid		24,717
Police aid		106,359
County program aid		1,300,262
Market value credit		1,185,428
Indian casino aid		54,271
Enhanced 911		82,776
		82,776

**Total Shared Revenue**

**\$ 7,624,025**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$	2,099,318
		2,099,318

**Payments**

**Local**

City contributions	\$	31,189
Payments in lieu of taxes		163,464
		163,464

**Total Payments**

**\$ 194,653**

**Grants**

**State**

Minnesota Department of Corrections	\$	191,568
Public Safety		243,241
Transportation		165,600
Health		96,511
Natural Resources		17,352
Human Services		1,424,654
Water and Soil Resources Board		68,625
Peace Officer Standards and Training Board		9,648
Pollution Control Agency		65,410
		65,410

**Total State**

**\$ 2,282,609**

**Federal**

Department of Agriculture	\$	92,935
Justice		1,380
Transportation		392,931
Health and Human Services		674,187
Homeland Security		72,510
		72,510

**Total Federal**

**\$ 1,233,943**

**Total State and Federal Grants**

**\$ 3,516,552**

**Total Intergovernmental Revenue**

**\$ 13,434,548**



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**MILLE LACS COUNTY  
MILACA, MINNESOTA**

**Schedule 10**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses unqualified opinions on the basic financial statements of Mille Lacs County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Mille Lacs County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Mille Lacs County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program 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 program for Mille Lacs 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 program is:
  - Highway Planning and Construction CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Mille Lacs County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 Departmental Internal Accounting Control

Due to the limited number of office personnel within the various County offices, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. In some offices, there may be only one employee to receive and account for departmental collections. This is not unusual in small departmental situations; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Examples of incompatible duties that should be performed by separate individuals are:

- receipting collections, posting collections to registers, and making bank deposits;
- signing checks and reconciling the bank accounts;
- receipting collections and posting collections to the accounts receivable records;
- approving receivable write-offs/write-downs and posting adjustments to the accounts receivable records; and
- data entry, adjusting accounting codes, and reviewing the monthly detailed report of receipts and disbursements for accuracy.

Some procedures the County's management may wish to consider to strengthen controls in these offices include:

- Departmental collections should be remitted to the County Auditor/Treasurer more frequently than once each month, perhaps weekly or even daily, to reduce the amount of funds on hand.

- Department heads should monitor operations within their offices to determine that reports are submitted properly and are in agreement with cash balances and grant expenditures.
- When an office has only a department head and one other employee, the department head should perform some of the accounting functions.

We recommend that County management be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that adequate controls are in place over cash, receivables, and other items.

Client's Response:

*This condition is due to the limited number of office personnel within the various offices. Budget constraints prevent hiring enough additional staff to alleviate this condition. Management is aware of this condition and continues to monitor it. Accounting duties are segregated as much as possible within the limitations of staff's abilities and job descriptions.*

02-1 Preparation of Financial Statements

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

Mille Lacs County has established controls and procedures for the recording, processing, and summarizing of its accounting data used in the preparation of its financial statements.

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

necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the government lacks internal control over the preparation and reporting of financial statements in accordance with GAAP.

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

Client's Response:

*We are working at completing more of the schedules and statements. We will look for opportunities to obtain additional training and expertise within the budget constraints that exist. We have also contracted for additional technical assistance through our computer financial system vendor to accomplish more of the statements on the system, but weigh the benefits of production of his financial statements against the probable additional efforts (and associated cost) of the audit team to perform the audit. This condition is common among small counties with limited resources.*

04-1 Disaster Recovery Plan

The County has a written disaster recovery plan in the event of a disaster involving its computer operations; however, it has not been updated since 1987. Since that time, the implementation of new computer systems and software has made the current plan outdated.

With increased reliance on data processing in the day-to-day operations of the County, an outdated disaster recovery plan could delay the County's return to normal operations after a computer-related disaster.

We recommend the County review and update its disaster recovery plan to reflect new systems, software, and changes in personnel and operations that have occurred since the plan was last updated.

Client's Response:

*Our AS400 computer is housed offsite at Computer Professional Unlimited, Inc., in Morris, Minnesota, and the computer we are leasing space on is also used by a couple other counties in our computer cooperative. Our computer provider has developed a disaster recovery plan that will provide for alternatives if we experience a computer-related disaster. We will be reviewing that plan and considering its adoption.*

06-1 Computer Controls

Mille Lacs County has established controls over its computer operations to ensure the proper recording, processing, and summarizing of accounting data. Our review of those controls revealed some weaknesses in the general and application controls designed to prevent unauthorized access.

Mille Lacs County processes its finance and general government applications on an IBM I Series system owned by Computer Professionals Unlimited, Inc. System value settings and user profiles provide the general controls over access to this system.

The following system value settings are operating below the recommended security levels for adequate control within the data processing function:

- Inactive job time-out - Under the current setting, the system does not check for inactive jobs.
- Limit device sessions - The current setting allows a single user on multiple devices.
- Maximum sign-on attempts allowed - Under the current setting, a user is allowed unlimited sign-on attempts.
- Limit adjacent digits in password - The current setting allows adjacent numbers.
- Limit characters in password - The current setting does not limit the use of any characters.
- Limit repeating characters in password - A character can be used more than once.
- Limit password character positions - Under the current setting, the same character can be used in the new password corresponding to the old position.
- Require digit in password - The current setting does not require numbers.

For adequate internal control, not all password controls are required; but the County should review the password controls currently in use to determine which ones are reasonable to limit access.

Client's Response:

*Password control security was increased after the 2006 audit comments. Additional security and password controls are being considered and discussed with our AS400 vendor.*

06-2 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. Statement on Auditing Standards (SAS) No. 112 states that one control deficiency that should be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

During our audit, we identified the following material adjustment to the General Fund. Receivables and related revenues were decreased by \$50,869.

Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

We recommend the County establish internal control necessary to determine that all adjusting entries are made to ensure the County's annual financial statements are reported in accordance with GAAP.

Client's Response:

*We have approved the audit adjustments necessary to represent the correct financial conditions for the Year Ending December 31, 2007, and will increase efforts to identify all receivables and payables for future financial statements.*

ITEMS ARISING THIS YEAR

07-1 Payroll

Authorization for Mille Lacs County payroll changes such as new hires, promotions, and pay increases, is initiated in the County Coordinator's Office. Notification of changes to be made is sent to the payroll clerk. The payroll clerk inputs the changes to the master file of the payroll system in addition to processing payroll. No review was being performed to verify that all changes to the payroll master file were authorized.

To strengthen internal controls, we recommend that someone independent of the payroll processing function review payroll edit reports to make sure that all changes made to the payroll system master file were authorized.

Client's Response:

*Reports are run with each payroll run for the Administrator's Office that include pay rates that have been used for each employee.*

07-2 Controls Over Journal Entries

Mille Lacs County limits access to the journal entry function to certain County employees. During our audit, we noted that the employees with access to the journal entry function can both create and post a journal entry without review or approval by a second person.

The ability to make journal entries on the accounting system is a powerful function. It allows those employees with access to the journal entry function to make changes to the general ledger system. To prevent abuse of this function, controls over journal entries should include:

- limited access to only those employees whose job duties require it,
- an explanation of why the journal entry is being made and who is making it,
- sufficient documentation to support the journal entry amounts,
- proper supervisory review and approval of journal entries, and
- evidence that controls have been monitored by someone independent of the journal entry process.

We recommend the County strengthen the controls over the journal entry process by: (1) adopting formal policies and procedures over the journal entry process, and (2) requiring journal entries to display evidence that they were reviewed by a second individual. In addition, a report should be generated periodically that shows journal entries that are not automatic or routine which have been posted to the general ledger system. Review and monitoring of this report should be done on a regular basis to ensure that journal entries made have been reviewed and approved.

Client's Response:

*Audit trail back up information is kept for all journal entries. We are also adding a sign off spot on the Journal Entry Form for initials of a second person approving the journal entry.*

07-3 Jail Inmate Account Bank Reconciliation

The Mille Lacs County Jail has been unable to successfully identify the breakdown of the total cash balance as stated on TEAM, its inmate account tracking system. TEAM is accounting software developed by TW Vending's TurnKey Corrections. Since the cash breakdown on TEAM cannot be identified, the Jail has been unable to fully reconcile the amount in the TEAM system to the bank statement.

Without bank reconciliations, the County has no assurance that the book balance (TEAM amount) is accurately stated. Bank reconciliations would provide evidence that all funds received and disbursed have been correctly processed through the bank account.

We recommend that the Jail contact the vendor to get the support and training necessary to identify the TEAM cash balance in order to reconcile the checking account to the bank statement.

Client's Response:

*The jail staff is asked to take whatever steps necessary to reconcile the Jail Inmate Account on a monthly basis.*

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

07-4 Depository Pledge Agreement

The depository pledge agreement between Bremer Bank and the County provides the bank at least three business days and an opportunity to cure the default before the custodian can release the collateral in the event of default.

Minn. Stat. § 118A.03, subd. 4, states, “The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged.”

We recommend that the County review this security agreement to ensure that it is consistent with the default language of Minn. Stat. § 118A.03, subd. 4, and that the required language is included.

Client’s Response:

*We will review the Pledge Agreements and request language changes if needed.*

07-5 Compliance with Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989

For two of the three depository banks, the County did not have documentation demonstrating that it had perfected security interest in pledged collateral in compliance with FIRREA, 12 U.S.C. § 1823(e). A 1992 U.S. Court of Appeals decision stated that, if a municipality fails to perfect a security interest under federal law, its right to such collateral in the event of the default is not enforceable. To obtain an enforceable security interest in the collateral, FIRREA requires the pledging institution’s security agreement or pledge of collateral to meet certain requirements.

We recommend that when the County receives the written collateral assignment, it also review the assignment to determine that:

- the assignment is approved by the depository's Board of Directors or loan committee; and
- the assignment of collateral is continuously, from the time of its execution, an official record of the depository

We also recommend the County require its depository institutions to comply with FIRREA and to provide proof of compliance in the form of a copy of the depository's Board of Directors or loan committee resolution. The agreement or pledge should include a list of particular securities pledged at the time of the resolution.

Client's Response:

*We will request proof of compliance from our depository institutions in the form of a copy of the depository's Board of Directors or loan committee resolution.*

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides 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 statement, accounting for OPEB is now similar to the accounting used by governments for pension plans.

*Schedule 10*  
*(Continued)*

This year, the Legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows governments to create both irrevocable and revocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both irrevocable and revocable OPEB trusts; and
- it also permits governments to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

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

- determine if employees are provided OPEB;
- if OPEB are being provided, the Mille Lacs County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the Mille Lacs County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Mille Lacs County Board will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;
- if an OPEB trust will be established, the Mille Lacs County Board will have to decide whether to establish an irrevocable or a revocable trust, and report that trust appropriately in the financial statements; and
- in order to determine annual costs and liabilities that need to be recognized, the Mille Lacs County Board will have to decide whether to hire an actuary.

GASB Statement 45 would be applicable to Mille Lacs County for the year ended December 31, 2008.

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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

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

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

Board of County Commissioners  
Mille Lacs County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mille Lacs County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 5, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-1, 02-1, 04-1, 06-1, 06-2, and 07-1 through 07-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by 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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mille Lacs 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, Mille Lacs County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 07-4 and 07-5.

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to Mille Lacs County, and it is reported for that purpose.

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

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

December 5, 2008

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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

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

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

Board of County Commissioners  
Mille Lacs County

#### Compliance

We have audited the compliance of Mille Lacs 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 its major federal program for the year ended December 31, 2007. Mille Lacs County's major federal program is 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 its major federal program 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 Mille Lacs 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, Mille Lacs County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

#### Internal Control Over Compliance

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

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by 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, each major fund, and the aggregate remaining fund information of Mille Lacs County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 5, 2008. Our audit was performed for the purpose of forming opinions on Mille Lacs 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 and others within the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

December 5, 2008

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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**MILLE LACS COUNTY  
MILACA, MINNESOTA**

**Schedule 11**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ <u>92,935</u>
<b>U.S. Department of Justice</b>		
Passed Through Minnesota Department of Public Safety Enforcing Underage Drinking Laws Program	16.727	\$ <u>1,380</u>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 692,655
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	5,058
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>25,734</u>
<b>Total U.S. Department of Transportation</b>		<b>\$ <u>723,447</u></b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	\$ 34,400
Temporary Assistance for Needy Families (TANF)	93.558	38,315
Maternal and Child Health Services Block Grant	93.994	31,241
Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families (TANF) Child Care Cluster	93.558	251,315
Child Care and Development Block Grant	93.575	6,109
Child Care Mandatory and Matching Funds	93.596	4,425
Child Welfare Services - State Grants	93.645	20,494
Foster Care Title IV-E	93.658	67,442
Social Services Block Grant Title XX	93.667	209,499
Chafee Foster Care Independence Program	93.674	7,202
Community Mental Health Services Block Grant	93.958	<u>3,745</u>
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ <u>674,187</u></b>

**MILLE LACS COUNTY  
MILACA, MINNESOTA**

***Schedule 11  
(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	\$ 11,953
Homeland Security Grant Program	97.067	30,694
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	29,863
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 72,510</b>
<b>Total Federal Awards</b>		<b>\$ 1,564,459</b>

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 Mille Lacs 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 accrual basis of accounting.
3. Expenditures on this schedule differ from federal revenues reported in the financial statements because of modified accrual revenue recognition. In 2007, there were \$330,516 of receivables not recognized as revenue because period of availability criteria had not been met for CFDA No. 20.205.
4. During 2007, the County did not pass any federal money to subrecipients.
5. Pass-through grant numbers were not assigned by the pass-through agencies.