

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

AITKIN COUNTY
AITKIN, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**AITKIN COUNTY
AITKIN, MINNESOTA**

For the Year Ended December 31, 2005



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

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**AITKIN COUNTY
AITKIN, MINNESOTA**

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AITKIN, MINNESOTA**

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**AITKIN COUNTY
AITKIN, MINNESOTA**

**ORGANIZATION
AS OF DECEMBER 31, 2005**

		<u>Term Expires</u>
Elected		
Commissioners		
District 1	Jon Olson	January 2007
District 2	Dale Lueck	January 2009
District 3	Paul Bailey	January 2007
District 4	Brian Napstad	January 2009
District 5	Jonathan E. (Reggie) Lee	January 2007
Attorney	Thomas Murtha IV	January 2007
Auditor	Kirk Peysar	January 2007
Recorder	Diane Lafferty	January 2007
Sheriff	Scott Turner	January 2007
Treasurer	Vernon Nelson	January 2007
Appointed		
Administrator	Scott Arneson	Indefinite
Assessor	Don Niemi	December 2008
Engineer	John Welle	December 2008
Coroner	Dr. M. B. McGee	Indefinite
Health and Human Services Director	Tom Burke	Indefinite
Veteran Services Officer	Robert Nelson	Indefinite

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Aitkin County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Aitkin County, Minnesota, as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Aitkin County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Aitkin County as of and for the year ended December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We

have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Aitkin County's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 10, 2006, on our consideration of Aitkin County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 10, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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AITKIN COUNTY
AITKIN, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

(Unaudited)

The Aitkin County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2005. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities have total net assets of \$79,667,279, of which \$49,379,057 is invested in capital assets, net of related debt, and \$7,481,212 is restricted to specific purposes.
- Business-type activities have total net assets of \$3,464,292. Invested in capital assets, net of related debt, represents \$3,554,001 of the total. Of the total business-type net assets, \$2,000 are restricted for specific uses.
- Aitkin County's net assets increased by \$5,628,536 for the year ended December 31, 2005. Of the increase, \$5,592,358 was in governmental activities net assets and \$36,178 was in business-type activities net assets. The net assets of the County's discretely presented component unit increased by \$68,394.
- The cost of primary government activities increased by \$425,085 to \$21,023,394 for the current fiscal year. Program revenues of \$11,782,245 offset those costs. A portion of the net cost was funded by general revenues and other items totaling \$14,923,685.
- Governmental funds' fund balances increased by \$2,113,462.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

Fund Financial Statements

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

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

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

Reporting the County's Fiduciary Responsibilities

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

THE COUNTY AS A WHOLE

Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental and business-type activities for the year ended December 31, 2005, with comparative amounts for 2004.

Table 1
Net Assets
(in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 34,162	\$ 30,721	\$ (36)	\$ (199)	\$ 34,126	\$ 30,522
Capital assets	52,809	50,977	3,554	3,687	56,363	54,664
Total Assets	\$ 86,971	\$ 81,698	\$ 3,518	\$ 3,488	\$ 90,489	\$ 85,186
Long-term debt outstanding	\$ 4,617	\$ 4,503	\$ 16	\$ 15	\$ 4,633	\$ 4,518
Other liabilities	2,687	3,120	37	45	2,724	3,165
Total Liabilities	\$ 7,304	\$ 7,623	\$ 53	\$ 60	\$ 7,357	\$ 7,683
Net Assets						
Invested in capital assets, net of debt	\$ 49,379	\$ 47,032	\$ 3,554	\$ 3,502	\$ 52,933	\$ 50,534
Restricted	7,481	5,023	2	2	7,483	5,025
Unrestricted	22,807	22,020	(91)	(76)	22,716	21,944
Total Net Assets	\$ 79,667	\$ 74,075	\$ 3,465	\$ 3,428	\$ 83,132	\$ 77,503

Table 2
Changes in Net Assets
(in thousands)

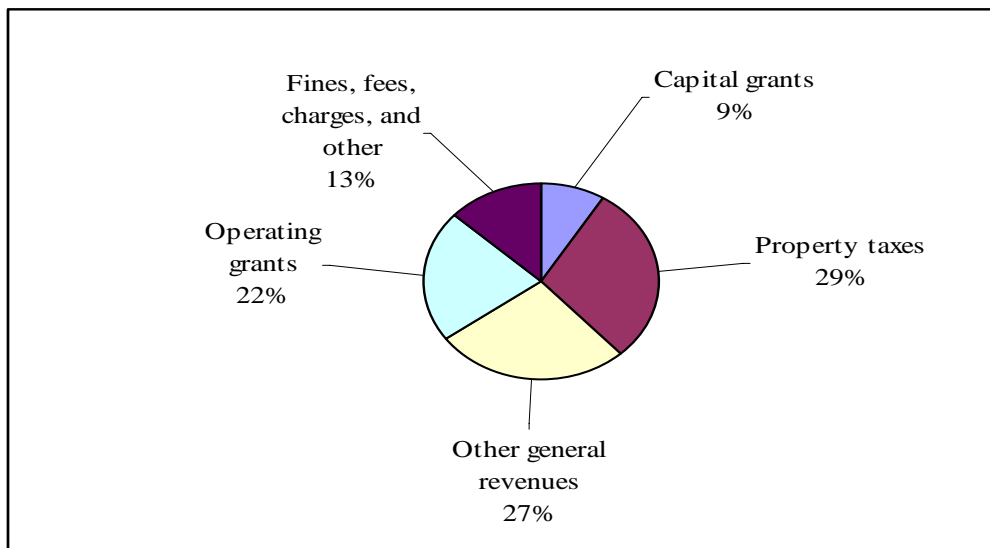
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues						
Fines, fees, charges, and other	\$ 2,633	\$ 2,603	\$ 735	\$ 723	\$ 3,368	\$ 3,326
Operating grants	5,971	5,245	9	12	5,980	5,257
Capital grants	2,380	2,120	-	-	2,380	2,120
General revenues						
Property taxes	7,653	7,342	-	-	7,653	7,342
Other taxes	921	791	-	-	921	791
Grants and contributions	2,576	2,816	-	-	2,576	2,816
Other general revenues	3,774	2,415	-	-	3,774	2,415
Total Revenues	\$ 25,908	\$ 23,332	\$ 744	\$ 735	\$ 26,652	\$ 24,067
Expenses						
General government	\$ 3,865	\$ 3,646	\$ -	\$ -	\$ 3,865	\$ 3,646
Public safety	4,125	3,487	-	-	4,125	3,487
Highways and streets	3,731	4,382	-	-	3,731	4,382
Sanitation	318	320	-	-	318	320
Human services	4,957	4,888	-	-	4,957	4,888
Health	501	501	-	-	501	501
Culture and recreation	594	644	-	-	594	644
Conservation of natural resources	1,774	1,524	892	862	2,666	2,386
Economic development	82	142	-	-	82	142
Interest	184	202	-	-	184	202
Total Expenses	\$ 20,131	\$ 19,736	\$ 892	\$ 862	\$ 21,023	\$ 20,598

(Unaudited)

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	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues Over (Under) Expenses	\$ 5,777	\$ 3,596	\$ (148)	\$ (127)	\$ 5,629	\$ 3,469
Transfers	(185)	(26)	185	26	-	-
Increase (Decrease) in Net Assets	\$ 5,592	\$ 3,570	\$ 37	\$ (101)	\$ 5,629	\$ 3,469
Net Assets, January 1	74,075	70,505	3,428	3,529	77,503	74,034
Net Assets, December 31	\$ 79,667	\$ 74,075	\$ 3,465	\$ 3,428	\$ 83,132	\$ 77,503

Total County Revenues by Source



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

The cost of all activities this year was \$20,131. However, as shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through County taxes was \$7,653 because some of the cost was paid by those who directly benefited from the programs (\$2,633) or by other governments and organizations that subsidized certain programs with grants and contributions (\$8,351).

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

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

Activity	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Human services	\$ 4,957	\$ 4,888	\$ 1,917	\$ 2,002
Public safety	4,125	3,487	3,145	2,427
General government	3,865	3,646	2,759	2,469
Highways and streets	3,731	4,382	(1,334)	355
Conservation of natural resources	1,774	1,524	1,453	1,065
Totals	<u>\$ 18,452</u>	<u>\$ 17,927</u>	<u>\$ 7,940</u>	<u>\$ 8,318</u>

Business-Type Activities

Revenues of the County’s business-type activities increased by 1.2 percent, and expenses increased by 3.6 percent.

The County’s Funds (in thousands)

As the County completed the year, its governmental funds reported a combined fund balance of \$26,837, which is above last year’s total of \$24,785. Included in this year’s total fund balance is a surplus of \$4,531 in the County’s General Fund. The General Fund’s change in fund balance (an increase of \$1,716 for 2005) represented the largest factor for the total increase (\$2,113) in governmental fund balances. Most of the General Fund’s increase is due to revenues exceeding expectations.

General Fund Budgetary Highlights (in thousands)

The actual charges to appropriations (expenditures) were \$580 below the final budget amounts. The most significant positive variances are due to the following: increased boarding revenues in the Sheriff’s Department, the rate of return on County investments was greater than the amount budgeted, and resources available for appropriation were above the final budgeted amount due to greater than expected collections for certain fees and charges for services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets (in thousands)

At the end of 2005, the County had \$56,363 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of just over \$1,699, or 3.1 percent, over the last year.

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

	Governmental Activities		Business-Type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Land	\$ 1,628	\$ 1,613	\$ 15	\$ 15	\$ 1,643	\$ 1,628
Construction in progress	330	299	9	10	339	309
Buildings and improvements	9,397	9,535	3,495	3,619	12,892	13,154
Machinery and equipment	1,854	2,078	35	43	1,889	2,121
Infrastructure	39,600	37,452	-	-	39,600	37,452
Totals	<u>\$ 52,809</u>	<u>\$ 50,977</u>	<u>\$ 3,554</u>	<u>\$ 3,687</u>	<u>\$ 56,363</u>	<u>\$ 54,664</u>

This year's major additions include:

County Road 1	Streetscape project	\$ 1,997
County Road 75	Ditching, fills, and aggregate surface	422
County Road 62	Bridge replacement	408

The County's fiscal year 2006 capital budget calls for it to spend another \$4,636 for capital projects, principally for highway and street improvements. Additional information on capital assets is found in Note 3.A.3. to the financial statements.

Debt (in thousands)

At year-end, the County had \$3,729 in bonds and notes outstanding versus \$4,269 last year, a decrease of 13.0 percent, as shown in Table 5.

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

	Governmental Activities	
	2005	2004
General obligation bonds and notes (backed by the County)	\$ 2,920	\$ 3,350
General obligation revenue notes	50	50
Certificates of participation	510	595
Clear Water Partnership Project notes	120	145
Minnesota Department of Agriculture notes	129	129
Totals	<u>\$ 3,729</u>	<u>\$ 4,269</u>

During 2005, the County's general obligation bond rating was upgraded to "A1" from "A3," a rating assigned by national rating agencies to the County's debt. The state limits the amount of net debt the County can issue to two percent of the market value of all taxable property in the County. The County's outstanding net debt is significantly below this \$28,162 state-imposed limit.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for the business-type activities.

- The State of Minnesota had projected a significant budget deficit, and it is anticipated that there will be significant reductions in state aids to local governments.
- An increase in the unemployment rate in 2006 could impact the level of services requested by County residents.
- The population of Aitkin County is increasing dramatically. This increase is creating increased demands for services across several service areas.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Assets</u>				
Cash and pooled investments	\$ 27,065,147	\$ -	\$ 27,065,147	\$ 67,775
Petty cash and change funds	5,000	-	5,000	-
Cash with escrow agent	200,944	-	200,944	-
Cash with fiscal agent	180,829	-	180,829	-
Taxes receivable				
Prior - net	352,196	-	352,196	-
Special assessments receivable				
Prior - net	1,825	-	1,825	-
Noncurrent - net	24,526	-	24,526	-
Accounts receivable - net	3,613,746	17,225	3,630,971	-
Loans receivable	230,932	-	230,932	-
Accrued interest receivable	57,082	8	57,090	-
Internal balances	64,179	(64,179)	-	-
Due from other governments	2,161,218	944	2,162,162	-
Deferred charges	32,617	-	32,617	-
Deposits receivable	25,000	-	25,000	-
Inventories	146,917	7,534	154,451	-
Restricted assets				
Cash and pooled investments	-	2,000	2,000	-
Capital assets				
Non-depreciable	1,957,421	23,900	1,981,321	75,690
Depreciable - net of accumulated depreciation	50,851,636	3,530,101	54,381,737	648,569
Total Assets	\$ 86,971,215	\$ 3,517,533	\$ 90,488,748	\$ 792,034
<u>Liabilities</u>				
Accounts payable	\$ 349,067	\$ 6,070	\$ 355,137	\$ -
Salaries payable	603,996	29,795	633,791	-
Contracts payable	320,738	-	320,738	-
Due to other governments	1,294,630	1,060	1,295,690	-
Accrued interest payable	24,471	-	24,471	-
Unearned revenue	93,994	-	93,994	-
Long-term liabilities				
Due within one year	384,767	108	384,875	-
Due in more than one year	4,232,273	15,808	4,248,081	-
Total Liabilities	\$ 7,303,936	\$ 52,841	\$ 7,356,777	\$ -

**AITKIN COUNTY
AITKIN, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Net Assets</u>				
Invested in capital assets - net of related debt	\$ 49,379,057	\$ 3,554,001	\$ 52,933,058	\$ 724,259
Restricted for				
General government	237,051	-	237,051	-
Public safety	198,459	-	198,459	-
Culture and recreation	818,458	-	818,458	-
Conservation of natural resources	2,871,187	-	2,871,187	-
Highways and streets	1,671,896	-	1,671,896	-
Sanitation	523,093	-	523,093	-
Debt service	497,813	-	497,813	-
Other purposes	663,255	2,000	665,255	-
Unrestricted	22,807,010	(91,309)	22,715,701	67,775
Total Net Assets	\$ 79,667,279	\$ 3,464,692	\$ 83,131,971	\$ 792,034

**AITKIN COUNTY
AITKIN, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>	<u>Program Revenues Operating Grants and Contributions</u>
Functions/Programs			
Primary government			
Governmental activities			
General government	\$ 3,864,846	\$ 1,024,182	\$ 81,655
Public safety	4,124,571	766,677	213,376
Highways and streets	3,731,335	292,811	2,392,249
Sanitation	317,685	35,040	-
Human services	4,957,142	400,010	2,639,958
Health	501,277	66,073	291,491
Culture and recreation	593,431	7,493	31,223
Conservation of natural resources	1,774,138	-	320,993
Economic development	81,925	41,085	-
Interest	184,152	-	-
Total governmental activities	\$ 20,130,502	\$ 2,633,371	\$ 5,970,945
Business-type activities			
Long Lake Conservation Center	892,892	735,128	8,994
Total primary government	\$ 21,023,394	\$ 3,368,499	\$ 5,979,939
Component unit			
Aitkin Municipal Airport Commission	<u>\$ 123,234</u>	<u>\$ 16,823</u>	<u>\$ 27,710</u>

General Revenues

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

Transfers

Total general revenues and transfers

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

Net (Expense) Revenue and Changes in Net Assets				
Capital Grants and Contributions	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
\$ -	\$ (2,759,009)	\$ -	\$ (2,759,009)	
-	(3,144,518)	-	(3,144,518)	
2,379,807	1,333,532	-	1,333,532	
-	(282,645)	-	(282,645)	
-	(1,917,174)	-	(1,917,174)	
-	(143,713)	-	(143,713)	
-	(554,715)	-	(554,715)	
-	(1,453,145)	-	(1,453,145)	
-	(40,840)	-	(40,840)	
-	(184,152)	-	(184,152)	
\$ 2,379,807	\$ (9,146,379)	\$ -	\$ (9,146,379)	
-	-	(148,770)	(148,770)	
\$ 2,379,807	\$ (9,146,379)	\$ (148,770)	\$ (9,295,149)	
\$ 146,887				\$ 68,186
	\$ 7,652,508	\$ -	\$ 7,652,508	\$ -
	27,908	-	27,908	-
	35,060	-	35,060	-
	858,057	-	858,057	-
	2,575,517	-	2,575,517	-
	766,530	40	766,570	208
	3,008,065	-	3,008,065	-
	(184,908)	184,908	-	-
	\$ 14,738,737	\$ 184,948	\$ 14,923,685	\$ 208
	\$ 5,592,358	\$ 36,178	\$ 5,628,536	\$ 68,394
	74,074,921	3,428,514	77,503,435	723,640
	\$ 79,667,279	\$ 3,464,692	\$ 83,131,971	\$ 792,034

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**AITKIN COUNTY
AITKIN, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 15,590,852	\$ 3,189,225
Petty cash and change funds	2,000	-
Cash with fiscal agent	180,829	-
Cash with escrow agent	200,944	-
Taxes receivable		
Prior	208,513	54,126
Special assessments receivable		
Prior	-	-
Noncurrent	-	-
Accounts receivable	15,586	337
Accrued interest receivable	57,082	-
Loans receivable	230,932	-
Due from other funds	518,029	36,853
Due from other governments	36,426	1,792,902
Inventories	-	146,917
Deposits receivable	25,000	-
	\$ 17,066,193	\$ 5,220,360
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 135,371	\$ 53,132
Salaries payable	320,973	83,779
Contracts payable	-	320,738
Compensated absences - current	1,180	5,810
Due to other funds	-	-
Due to other governments	35,621	-
Deferred revenue - unavailable	150,162	1,728,394
Timber permit bonds	-	-
	\$ 643,307	\$ 2,191,853

EXHIBIT 3

Health and Human Services	Forfeited Tax Sale	Other Governmental Funds	Total Governmental Funds
\$ 3,037,418	\$ 3,081,710	\$ 2,165,942	\$ 27,065,147
3,000	-	-	5,000
-	-	-	180,829
-	-	-	200,944
72,703	-	16,854	352,196
-	-	1,825	1,825
-	-	24,526	24,526
19,642	3,555,613	22,568	3,613,746
-	-	-	57,082
-	-	-	230,932
-	-	567,356	1,122,238
331,890	-	-	2,161,218
-	-	-	146,917
-	-	-	25,000
<u>\$ 3,464,653</u>	<u>\$ 6,637,323</u>	<u>\$ 2,799,071</u>	<u>\$ 35,187,600</u>
\$ 148,578	\$ 7,947	\$ 4,039	\$ 349,067
159,853	33,273	6,118	603,996
-	-	-	320,738
2,541	371	552	10,454
-	1,021,206	36,853	1,058,059
27,606	308,901	-	372,128
49,968	3,553,023	60,400	5,541,947
-	93,994	-	93,994
<u>\$ 388,546</u>	<u>\$ 5,018,715</u>	<u>\$ 107,962</u>	<u>\$ 8,350,383</u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
(Continued)		
Fund Balances		
Reserved for		
Inventories	\$ -	\$ 146,917
Missing heirs	-	-
Law library	-	-
Sheriff's contingency	5,000	-
Debt service	381,772	-
Enhanced 911	138,608	-
Loans receivable	186,503	-
Recorder's equipment	84,573	-
Recorder's technology	46,837	-
Attorney grant carryover	3,575	-
County parks	203,456	-
Prisoner welfare	38,242	-
STS carryover	1,044	-
Capital membership	25,000	-
County development	-	-
Unclaimed property	-	-
Life line	-	-
Conservation forfeited tax sale	-	-
Forfeited tax sale	-	-
Environmental purposes	-	-
Gun permit carryover	16,609	-
Unreserved		
Designated for future expenditures	918,976	163,247
Designated for cash flows	8,728,645	-
Designated for workers' compensation	-	-
Designated for solid waste	523,093	-
Designated for economic development	589,565	-
Undesignated	4,531,388	2,718,343
Unreserved, reported in nonmajor		
Special revenue funds	-	-
Debt service fund	-	-
	\$ 16,422,886	\$ 3,028,507
Total Fund Balances		
	\$ 17,066,193	\$ 5,220,360
Total Liabilities and Fund Balances		

EXHIBIT 3
(Continued)

Health and Human Services	Forfeited Tax Sale	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 146,917
-	26,246	-	26,246
-	102,066	-	102,066
-	-	-	5,000
-	-	-	381,772
-	-	-	138,608
-	-	-	186,503
-	-	-	84,573
-	-	-	46,837
-	-	-	3,575
-	-	-	203,456
-	-	-	38,242
-	-	-	1,044
-	-	-	25,000
-	635,194	-	635,194
-	1,815	-	1,815
-	1,436	-	1,436
-	1,217	-	1,217
-	23,473	-	23,473
-	-	465,745	465,745
-	-	-	16,609
-	15,000	-	1,097,223
-	-	-	8,728,645
-	812,161	-	812,161
-	-	-	523,093
-	-	-	589,565
3,076,107	-	-	10,325,838
-	-	2,109,323	2,109,323
-	-	116,041	116,041
\$ 3,076,107	\$ 1,618,608	\$ 2,691,109	\$ 26,837,217
\$ 3,464,653	\$ 6,637,323	\$ 2,799,071	\$ 35,187,600

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**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005**

Fund balances - total governmental funds	\$	26,837,217
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.		52,809,057
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds (See Note 1.E.1.).		4,619,445
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (3,107,706)	
General obligation note	(170,503)	
Loans payable	(128,797)	
Compensated absences	(689,580)	
Accrued interest payable	(24,471)	
Certificates of participation	(510,000)	
Deferred debt issuance charges	32,617	(4,598,440)
	<hr/>	<hr/>
Net assets of governmental activities	\$	<u>79,667,279</u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General	Road and Bridge
Revenues		
Taxes	\$ 4,483,087	\$ 1,161,490
Special assessments	-	-
Licenses and permits	93,959	-
Intergovernmental	2,607,635	4,393,494
Charges for services	1,486,716	238,770
Fines and forfeits	51,205	-
Interest on investments	748,472	-
Miscellaneous	244,712	54,021
	\$ 9,715,786	\$ 5,847,775
Expenditures		
Current		
General government	\$ 3,648,061	\$ -
Public safety	3,809,994	-
Highways and streets	-	5,766,810
Sanitation	320,993	-
Human services	-	-
Health	7,285	-
Culture and recreation	593,244	-
Conservation of natural resources	195,371	-
Economic development	81,625	-
Intergovernmental		
Public safety	93,425	-
Debt service		
Principal	109,252	-
Interest	32,415	-
Bond issuance costs	-	-
	\$ 8,891,665	\$ 5,766,810
Excess of Revenues Over (Under) Expenditures	\$ 824,121	\$ 80,965
Other Financing Sources (Uses)		
Transfers in	\$ 1,067,371	\$ 42,609
Transfers out	(175,017)	-
Refunding bonds issued	-	-
Premium on bond issued	-	-
Refund of bond	-	-
	\$ 892,354	\$ 42,609
Net Change in Fund Balances	\$ 1,716,475	\$ 123,574
Fund Balances - January 1	14,706,411	2,966,128
Increase (decrease) in reserved for inventories	-	(61,195)
Fund Balances - December 31	\$ 16,422,886	\$ 3,028,507

EXHIBIT 5

Health and Human Services	Forfeited Tax Sale	Other Governmental Funds	Total Governmental Funds
\$ 1,692,695	\$ -	\$ 412,077	\$ 7,749,349
-	-	1,502	1,502
-	-	4,096	98,055
3,506,145	216,934	283,360	11,007,568
34,249	34,055	-	1,793,790
-	-	-	51,205
-	-	18,058	766,530
405,744	2,313,413	24,719	3,042,609
\$ 5,638,833	\$ 2,564,402	\$ 743,812	\$ 24,510,608
\$ -	\$ 63,720	\$ 1,304	\$ 3,713,085
-	-	9,527	3,819,521
-	-	3,665	5,770,475
-	-	-	320,993
4,946,279	-	-	4,946,279
491,369	-	-	498,654
-	-	-	593,244
-	1,207,572	413,897	1,816,840
-	-	-	81,625
-	-	-	93,425
-	-	275,000	384,252
-	-	142,955	175,370
-	-	32,919	32,919
\$ 5,437,648	\$ 1,271,292	\$ 879,267	\$ 22,246,682
\$ 201,185	\$ 1,293,110	\$ (135,455)	\$ 2,263,926
\$ -	\$ -	\$ 571,962	\$ 1,681,942
-	(1,180,690)	(511,143)	(1,866,850)
-	-	2,920,000	2,920,000
-	-	189,444	189,444
-	-	(3,075,000)	(3,075,000)
\$ -	\$ (1,180,690)	\$ 95,263	\$ (150,464)
\$ 201,185	\$ 112,420	\$ (40,192)	\$ 2,113,462
2,874,922	1,506,188	2,731,301	24,784,950
-	-	-	(61,195)
\$ 3,076,107	\$ 1,618,608	\$ 2,691,109	\$ 26,837,217

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Net change in fund balances - total governmental funds **\$ 2,113,462**

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 revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable (See Note 1.E.2.). 1,404,660

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

Expenditures for general capital assets and infrastructure	\$ 3,612,362	
Net book value of assets disposed of	(7,500)	
Current year depreciation	<u>(1,772,326)</u>	1,832,536

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities.

Debt issued		
Refunding bonds issued	\$ (2,920,000)	
Premium on bonds issued	(189,444)	
Issuance costs	<u>32,919</u>	(3,076,525)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal repayments		
General obligation bonds	\$ 3,350,000	
General obligation notes	24,252	
Certificates of participation	<u>85,000</u>	3,459,252

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. See Note 1.E.2. for details. (141,027)

Change in net assets of governmental activities **\$ 5,592,358**

PROPRIETARY FUND

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**LONG LAKE CONSERVATION CENTER
ENTERPRISE FUND**

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**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND
DECEMBER 31, 2005**

Assets

Current assets	
Accounts receivable - net	\$ 17,225
Accrued interest receivable	8
Due from other governments	944
Inventories	7,534
	<hr/>
Total current assets	\$ 25,711
Restricted assets	
Cash and pooled investments	\$ 2,000
	<hr/>
Noncurrent assets	
Capital assets	
Non-depreciable	\$ 23,900
Depreciable - net	3,530,101
	<hr/>
Total Assets	\$ 3,581,712

Liabilities

Current liabilities	
Accounts payable	\$ 6,070
Salaries payable	29,795
Compensated absences payable - current	108
Due to other funds	64,179
Due to other governments	1,060
	<hr/>
Total current liabilities	\$ 101,212
Noncurrent liabilities	
Compensated absences payable - long-term	15,808
	<hr/>
Total Liabilities	\$ 117,020

Net Assets

Invested in capital assets	\$ 3,554,001
Restricted for other purposes	2,000
Unrestricted	(91,309)
	<hr/>
Total Net Assets	\$ 3,464,692

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

Operating Revenues	
Program packages	\$ 675,119
Resale	54,144
Miscellaneous	<u>5,865</u>
Total Operating Revenues	\$ <u>735,128</u>
Operating Expenses	
Personal services	\$ 522,127
Other services and charges	74,282
Supplies	83,038
Utilities	41,449
Resale	38,579
Depreciation	<u>131,917</u>
Total Operating Expenses	\$ <u>891,392</u>
Operating Income (Loss)	\$ <u>(156,264)</u>
Nonoperating Revenues (Expenses)	
Intergovernmental	\$ 8,994
Interest income	40
Loss on disposal of asset	<u>(1,500)</u>
Total Nonoperating Revenues (Expenses)	\$ <u>7,534</u>
Income (Loss) Before Transfers	\$ (148,730)
Transfers in	<u>184,908</u>
Change in Net Assets	\$ 36,178
Net Assets - January 1	<u>3,428,514</u>
Net Assets - December 31	\$ <u><u>3,464,692</u></u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

Cash Flows from Operating Activities	
Cash received from customers	\$ 751,194
Cash paid to suppliers	(248,601)
Cash paid to employees	(518,864)
	<u>(16,271)</u>
Net cash provided by (used in) operating activities	\$ (16,271)
Cash Flows from Noncapital Financing Activities	
Contributions and donations	\$ 7,610
Intergovernmental	1,902
Interfund	191,635
	<u>201,147</u>
Net cash provided by (used in) noncapital financing activities	\$ 201,147
Cash Flows from Capital and Related Financing Activities	
Payment on interfund loan	\$ (184,908)
	<u>(184,908)</u>
Cash Flows from Investing Activities	
Interest	\$ 32
	<u>32</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ -
Cash and Cash Equivalents at January 1	2,000
	<u>2,000</u>
Cash and Cash Equivalents at December 31	\$ 2,000
	<u>2,000</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	\$ (156,264)
	<u>(156,264)</u>
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	\$ 131,917
Changes in assets and liabilities	
Accounts receivable	16,066
Inventories	(214)
Accounts payable	(11,038)
Salaries payable	2,485
Compensated absences	777
	<u>119,983</u>
Total adjustments	\$ 119,983
Net Cash Provided by (Used in) Operating Activities	\$ (16,271)
	<u>(16,271)</u>

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FIDUCIARY FUNDS

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**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2005**

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ <u>771,259</u>
<u>Liabilities</u>	
Accounts payable	\$ 150,429
Due to other governments	<u>620,830</u>
Total Liabilities	\$ <u>771,259</u>

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AITKIN COUNTY
AITKIN, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005

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, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Discretely Presented Component Unit

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

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

AITKIN COUNTY
AITKIN, MINNESOTA

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

The County reports the following major enterprise fund:

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

AITKIN COUNTY
AITKIN, MINNESOTA

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

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

C. Measurement Focus and Basis of Accounting

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

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

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

AITKIN COUNTY
AITKIN, MINNESOTA

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2005, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds receive investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2005 were \$748,472.

Aitkin County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

3. Receivables and Payables

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).

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

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

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

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due October 15.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

4. Inventories and Prepaid Items

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

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

AITKIN COUNTY
AITKIN, MINNESOTA

1. Summary of Significant Accounting Policies

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

5. Restricted Assets

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

6. Capital Assets

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

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

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

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Compensated Absences

The liability for compensated absences reported in 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, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

8. Deferred Revenue

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

9. Long-Term Obligations

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Fund Equity

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

11. Use of Estimates

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

E. Reconciliation of Government-Wide and Fund Financial Statements

1. Governmental Fund Balance Sheet and Statement of Net Assets

Exhibit 4 provides a reconciliation between fund balance as reported in the governmental fund balance sheet and net assets--governmental activities as reported in the statement of net assets. One element of that reconciliation is "other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds." The detail of this \$4,619,445 follows.

Included in the long-term assets are receivables for forfeited tax sales. Forfeited tax sales are distributed to the County and certain governments within the County. Receivables not available to pay current expenditures have been deferred. On the government-wide financial statements, the portion of this receivable that will be distributed to the County is reported as revenue, and the amount to be distributed to others is reported as due to other governments.

Deferred revenue	\$ 5,541,947
Due to other governments	<u>(922,502)</u>

Adjustment to Increase Fund Balance to Arrive at Net Assets--Governmental Activities	<u>\$ 4,619,445</u>
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**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Reconciliation of Government-Wide and Fund Financial Statements (Continued)

2. Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and Statement of Activities

Exhibit 6 is a reconciliation between the increase in governmental funds fund balance and the increase in net assets--governmental activities. One element of that increase is “in the funds, under the modified accrual basis, receivables not available for expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues is the increase (decrease) in revenues deferred as unavailable.” The details of the \$1,404,660 follow.

Included in deferred revenue are forfeited tax sales receivable that, when received, will be paid to other governments. On the government-wide statements, these are reported as due to other governments.

December 31		
Deferred revenue - unavailable	\$	5,541,947
Less: forfeited tax sales due to other governments		(922,502)
January 1		
Deferred revenue - unavailable		(3,906,661)
Less: forfeited tax sales due to other governments		691,876
		691,876
Adjustment to Revenue	\$	1,404,660

Another element of that reconciliation states that “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.” The details of this \$141,027 are:

Change in compensated absences	\$	71,050
Change in accrued interest payable on general long-term debt		10,218
Amortization of deferred debt issuance costs		302
Amortization of bond premiums		(1,738)
Change in inventories		61,195
Net Adjustment to Decrease Net Changes in Fund Balance to Arrive at Changes in Net Assets	\$	141,027

**AITKIN COUNTY
AITKIN, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Ditch Special Revenue Fund had a deficit fund balance of \$20,476 as of December 31, 2005. This deficit will be eliminated by future special assessment levies against benefited properties.

B. Expenditures in Excess of Budget

For the year ended December 31, 2005, expenditures exceeded appropriations in the Forfeited Tax Sale Special Revenue Fund by \$130,908, in the Ditch Special Revenue Fund by \$418, and in the Jail Bond Debt Service Fund by \$37,288.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 27,065,147
Petty cash and change funds	5,000
Cash with escrow agent	200,944
Cash with fiscal agent	180,829
Business-type activities	
Cash and pooled investments - restricted assets	2,000
Discrete component unit	
Cash and pooled investments	67,775
Statement of fiduciary net assets	
Cash and pooled investments	<u>771,259</u>
Total Cash and Investments	<u>\$ 28,292,954</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

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2005, 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;

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

Credit Risk

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Of the County's investments at December 31, 2005, \$288,000 was held by the counterparty, or by its trust department or agent, but not in the County's name.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that U.S. Treasury securities, U.S. Agency securities, and obligations backed by U.S. Treasury and/or U.S. Agency securities, may be held without limit.

The following table presents the County's investment balances at December 31, 2005, 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% of Portfolio	Maturity Date	
U.S. government agency securities					
Government National Mortgage Association Pool		N/A		05/15/2021	\$ 5,868
Government National Mortgage Association Pool	N/A	N/A		12/15/2022	6,461
	N/A				
Total Government National Mortgage Association Pool					\$ 12,329
Federal Home Loan Mortgage Corporation Note		Moody's		01/21/2009	\$ 246,928
Federal Home Loan Mortgage Corporation Note	Aaa	Moody's		02/25/2008	983,714
Federal Home Loan Mortgage Corporation Note	Aaa	N/A		04/01/2017	934
Federal Home Loan Mortgage Corporation Bond	N/R	S&P		12/29/2006	498,620
	AAA				
Total Federal Home Loan Mortgage Corporation			8.4%		\$ 1,730,196

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
Federal Home Loan Bank Bonds	Aaa	Moody's		05/14/2013	\$ 196,898
Federal Home Loan Bank Bonds	AAA	Moody's		05/22/2018	147,405
Federal Home Loan Bank Bonds	AAA	S&P		10/27/2006	498,540
Federal Home Loan Bank Bonds	AAA	S&P		12/15/2006	498,020
Federal Home Loan Bank Bonds	AAA	S&P		04/25/2006	999,289
Federal Home Loan Bank Bonds	Aaa	Moody's		07/28/2006	622,669
Federal Home Loan Bank Bonds	AAA	S&P		10/27/2006	997,900
Total Federal Home Loan Bank Bonds			19.2%		\$ 3,960,721
Commercial paper					
Orion Finance Corporation LLC	A-1	S&P	9.6%	01/31/2006	\$ 1,990,000
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 11,784,895
Wells Fargo - Advantage Prime Fund	AAA	S&P	N/A	N/A	110,628
First American Treasury Obligations Fund	AAA	S&P	N/A	N/A	200,944
Total investment pools/mutual funds					\$ 12,096,467
Negotiable certificates of deposit					
San Luis Bank	N/A	N/A	N/A	01/26/2006	\$ 96,921
Select Bank	N/A	N/A	N/A	01/27/2006	98,915
First National Bank of Baldwin	N/A	N/A	N/A	06/19/2006	98,122
People National Bank	N/A	N/A	N/A	07/31/2006	97,667
Treasury Bank Alexandria, Virginia	N/A	N/A	N/A	08/07/2006	98,563
American Founders Bank	N/A	N/A	N/A	09/21/2006	98,459
American National Bank	N/A	N/A	N/A	03/28/2006	96,000
First National Bank of McGregor (Texas)	N/A	N/A	N/A	03/28/2006	96,000
Perpetual First State Bank	N/A	N/A	N/A	08/24/2007	96,000
Total negotiable certificates of deposit					\$ 876,647
Total investments					\$ 20,666,360
Deposits					7,621,594
Petty cash					5,000
Total Cash and Investments					\$ 28,292,954

N/A - Not Applicable N/R - Not Rated

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2005, for the County's governmental activities and business-type activities, including applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 352,196	\$ -
Special assessments	26,351	24,849
Due from other governments	2,161,218	-
Accounts	3,613,746	-
Interest	57,082	-
Loans	230,932	181,358
Deposits	25,000	25,000
Total Governmental Activities	\$ 6,466,525	\$ 231,207

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities		
Due from other governments	\$ 944	\$ -
Interest	8	-
Accounts	17,225	-
Total Business-Type Activities	\$ 33,795	\$ -

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,612,740	\$ 15,021	\$ -	\$ 1,627,761
Construction in progress	299,177	142,166	111,683	329,660
Total capital assets not depreciated	<u>\$ 1,911,917</u>	<u>\$ 157,187</u>	<u>\$ 111,683</u>	<u>\$ 1,957,421</u>
Capital assets depreciated				
Buildings	\$ 13,365,151	\$ 177,146	\$ 26,716	\$ 13,515,581
Machinery, furniture, and equipment	7,515,653	256,566	9,000	7,763,219
Infrastructure	46,799,377	3,133,146	-	49,932,523
Total capital assets depreciated	<u>\$ 67,680,181</u>	<u>\$ 3,566,858</u>	<u>\$ 35,716</u>	<u>\$ 71,211,323</u>
Less: accumulated depreciation for				
Buildings	\$ 3,830,114	\$ 315,189	\$ 26,716	\$ 4,118,587
Machinery, furniture, and equipment	5,437,739	472,212	1,500	5,908,451
Infrastructure	9,347,724	984,925	-	10,332,649
Total accumulated depreciation	<u>\$ 18,615,577</u>	<u>\$ 1,772,326</u>	<u>\$ 28,216</u>	<u>\$ 20,359,687</u>
Total capital assets depreciated, net	<u>\$ 49,064,604</u>	<u>\$ 1,794,532</u>	<u>\$ 7,500</u>	<u>\$ 50,851,636</u>
Governmental Activities Capital Assets, Net	<u>\$ 50,976,521</u>	<u>\$ 1,951,719</u>	<u>\$ 119,183</u>	<u>\$ 52,809,057</u>

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 15,400	\$ -	\$ -	\$ 15,400
Construction in progress	10,000	-	1,500	8,500
Total capital assets not depreciated	<u>\$ 25,400</u>	<u>\$ -</u>	<u>\$ 1,500</u>	<u>\$ 23,900</u>
Capital assets depreciated				
Buildings	\$ 4,797,417	\$ -	\$ -	\$ 4,797,417
Machinery, furniture, and equipment	151,800	-	4,802	146,998
Total capital assets depreciated	<u>\$ 4,949,217</u>	<u>\$ -</u>	<u>\$ 4,802</u>	<u>\$ 4,944,415</u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Business-Type Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 1,178,932	\$ 123,592	\$ -	\$ 1,302,524
Machinery, furniture, and equipment	108,267	8,325	4,802	111,790
Total accumulated depreciation	<u>\$ 1,287,199</u>	<u>\$ 131,917</u>	<u>\$ 4,802</u>	<u>\$ 1,414,314</u>
Total capital assets depreciated, net	<u>\$ 3,662,018</u>	<u>\$ (131,917)</u>	<u>\$ -</u>	<u>\$ 3,530,101</u>
Business-Type Activities				
Capital Assets, Net	<u>\$ 3,687,418</u>	<u>\$ (131,917)</u>	<u>\$ 1,500</u>	<u>\$ 3,554,001</u>

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

Governmental Activities	
General government	\$ 142,514
Public safety	281,079
Highways and streets, including depreciation of infrastructure assets	1,246,044
Human services	29,664
Sanitation	14,224
Culture and recreation	6,535
Conservation of natural resources	52,266
Total Depreciation Expense - Governmental Activities	<u>\$ 1,772,326</u>
Business-Type Activities	
Long Lake Conservation Center	<u>\$ 131,917</u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2005, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Forfeited Tax Sale	\$ 453,850
	Long Lake Conservation Center	64,179
Total Due to General Fund		\$ 518,029
Road and Bridge	Other Governmental	36,853
Other Governmental	Forfeited Tax Sale	567,356
Total Due To/From Other Funds		\$ 1,122,238

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2005, consisted of the following:

Transfers to General Fund from Forfeited Tax Sale Fund	\$ 608,728	Forfeited tax sale apportionment and transfer of funds to cover expenditures
Nonmajor governmental funds	458,643	Closed out economic development fund
Total Transferred to General Fund	\$ 1,067,371	
Transfers to Road and Bridge Fund from nonmajor governmental funds	\$ 42,609	Provide funds for services
Transfers to nonmajor governmental funds from Forfeited Tax Sale Fund	\$ 571,962	Forfeited tax sale apportionment and transfer of funds to cover expenditures
Transfer to Long Lake Conservation Center Fund from General Fund	\$ 175,017	Provide funds for repayment of interfund loan
Nonmajor governmental funds	9,891	Provide funds
Total Transferred to Long Lake Conservation Center Fund	\$ 184,908	
Total Interfund Transfers	\$ 1,866,850	

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Long-Term Debt

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
2005 General Obligation Jail Refunding Bonds	2014	\$260,000 - \$335,000	5.00	\$ 2,920,000	\$ 2,920,000
1999B General Obligation Revenue Notes	2014	\$50,000	0.00	50,000	50,123
2000A Certificates of Participation	2010	\$20,000 - \$115,000	5.00 - 5.90	<u>845,000</u>	<u>510,000</u>
Total General Obligation Bonds				<u>\$ 3,815,000</u>	<u>\$ 3,480,123</u>
1999 Clean Water Partnership Project Notes	2010	\$21,186	0.00	\$ 211,864	\$ 95,339
2000 Clean Water Partnership Project Notes	2013	\$1,806	2.00	<u>32,450</u>	<u>25,041</u>
Total Clean Water Partnership Notes				<u>\$ 244,314</u>	<u>\$ 120,380</u>
1999 Minnesota Department of Agriculture Loans	2019	\$73,930	0.00	\$ 73,930	\$ 73,930
2001 Minnesota Department of Agriculture Loans	2018	\$54,867	0.00	<u>54,867</u>	<u>54,867</u>
Total Minnesota Department of Agriculture Loans				<u>\$ 128,797</u>	<u>\$ 128,797</u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Debt Service Requirements

Debt service requirements at December 31, 2005, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		General Obligation Revenue Notes		Certificates of Participation	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 260,000	\$ 158,167	\$ -	\$ -	\$ 90,000	\$ 27,010
2007	290,000	133,000	-	-	95,000	21,783
2008	295,000	118,500	-	-	100,000	16,175
2009	315,000	103,750	-	-	110,000	10,030
2010	330,000	88,000	-	-	115,000	3,393
2011 - 2015	1,430,000	178,000	50,123	-	-	-
2016 - 2019	-	-	-	-	-	-
Totals	\$ 2,920,000	\$ 779,417	\$ 50,123	\$ -	\$ 510,000	\$ 78,391

Year Ending December 31	Clean Water Partnership Project Notes of 1999		Clean Water Partnership Project Notes of 2000		Minnesota Department of Agriculture Loans of 1999	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 21,186	\$ -	\$ 3,127	\$ 485	\$ -	\$ -
2007	21,186	-	3,190	422	-	-
2008	21,186	-	3,253	359	-	-
2009	21,186	-	3,319	293	-	-
2010	10,595	-	3,386	226	-	-
2011 - 2015	-	-	8,766	265	-	-
2016 - 2019	-	-	-	-	73,930	-
Totals	\$ 95,339	\$ -	\$ 25,041	\$ 2,050	\$ 73,930	\$ -

Year Ending December 31	Minnesota Department of Agriculture Loans of 2001		Total	
	Principal	Interest	Principal	Interest
2006	\$ -	\$ -	\$ 374,313	\$ 185,662
2007	-	-	409,376	155,205
2008	-	-	419,439	135,034
2009	-	-	449,505	114,073
2010	-	-	458,981	91,619
2011 - 2015	-	-	1,488,889	178,265
2016 - 2019	54,867	-	128,797	-
Totals	\$ 54,867	\$ -	\$ 3,729,300	\$ 859,858

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 3,350,000	\$ 2,920,000	\$ 3,350,000	\$ 2,920,000	\$ 260,000
Bond premium	-	189,444	1,738	187,706	-
G.O. revenue notes	50,123	-	-	50,123	-
Certificates of participation	595,000	-	85,000	510,000	90,000
Total bonds payable	\$ 3,995,123	\$ 3,109,444	\$ 3,436,738	\$ 3,667,829	\$ 350,000
Clear Water Partnership Project Notes of 1999	116,525	-	21,186	95,339	21,186
Clear Water Partnership Project Notes of 2000	28,107	-	3,066	25,041	3,127
Minnesota Department of Agriculture Loans of 1999	73,930	-	-	73,930	-
Minnesota Department of Agriculture Loans of 2001	54,867	-	-	54,867	-
Compensated absences	635,044	849,487	784,497	700,034	10,454
Governmental Activity Long-Term Liabilities	\$ 4,903,596	\$ 3,958,931	\$ 4,245,487	\$ 4,617,040	\$ 384,767

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 15,139	\$ 40,516	\$ 39,739	\$ 15,916	\$ 108

4. Current Refundings

On December 1, 2005, the County issued \$2,920,000 in General Obligation Jail Refunding Bonds with an interest rate of 5.00 percent to current refund the following outstanding bond issue:

\$4,585,000	General Obligation Jail Bonds dated January 20, 1999, maturities 2007 to 2015, interest rates of 4.25 percent to 4.30 percent. Outstanding maturities totaled \$3,075,000.
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**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Current Refundings (Continued)

These outstanding maturities were called on December 31, 2005. The current refunding reduced total debt service payment over the next nine years by \$77,664. This results in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$50,187.

4. Employee Retirement Systems and Pension Plans

A. Plan Description

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

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

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The 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

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

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

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

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

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

the Coordinated Plan increased in 2006 to 5.50 percent. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006. 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 2005 and 2006:

	2005	2006
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	5.53	6.00
Public Employees Police and Fire Fund	9.30	10.50
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2005, 2004, and 2003, 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
2005	\$ 378,449	\$ 77,991	\$ 71,404
2004	365,059	80,803	66,245
2003	353,785	80,482	63,455

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

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters, for which the County carries commercial insurance. The County has entered into a joint powers

**AITKIN COUNTY
AITKIN, MINNESOTA**

5. Risk Management (Continued)

agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$760,000 per claim in 2005 and \$390,000 per claim in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

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

B. Joint Ventures

Central Minnesota Community Corrections Agency

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

The Central Minnesota Community Corrections Agency is funded through state grants and contributions from its member counties. Aitkin County had expenditures of \$141,425 for community corrections to the Agency for 2005.

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

Complete financial information can be obtained from:

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

Northeast Minnesota Office of Job Training

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

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

A summary of the financial information of the Northeast Minnesota Office of Job Training's government-wide statements for June 30, 2005, was:

Total Assets	\$ 2,716,308
Total Liabilities	1,173,716
Total Net Assets	1,542,592
Total Revenues	5,152,590
Total Expenses	4,992,548
Change in Net Assets	160,042

Separate financial information can be obtained from:

Northeast Minnesota Office of Job Training
820 North Ninth Street, Suite 200
Virginia, Minnesota 55792

Northern Counties Land Use Board

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northern Counties Land Use Board (Continued)

A summary of the government-wide financial statements at December 31, 2004 (most recent available), is shown below:

Total Assets	\$	27,283
Total Liabilities		5,243
Total Net Assets		22,040
Total Revenues		51,250
Total Expenses		42,956
Change in Net Assets		8,294

The County contributed \$2,500 during 2005 to the Northern Counties Land Use Board.

Separate financial information can be obtained from:

Northern Counties Land Use Board
Room 607
Government Services Center
320 West Second Street
Duluth, Minnesota 55802

Joint County Natural Resources Board

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Joint County Natural Resources Board (Continued)

In the event of dissolution of the Joint County Natural Resources Board, the net assets of the Natural Resources Board at that time shall be distributed to the respective member counties in proportion to the contribution of each. Aitkin County provided \$1,000 in funding to this organization during 2005.

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

Complete financial information can be obtained from:

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

Community Health Services Board

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

The Community Health Services Board is composed of two members from Aitkin and Koochiching Counties and three members from Itasca County, each appointed by the participating counties. Itasca County maintains the accounting records of the Community Health Services. Funding is obtained through federal, state, local, and private sources. Aitkin County provided no funding to this organization during 2005.

Complete financial information can be obtained from:

Itasca County Courthouse
123 - 4th Street N. E.
Grand Rapids, Minnesota 55744

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Mississippi Headwaters Board

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

The Mississippi Headwaters Board consists of eight members, one appointed from each participating county. Cass County maintains the accounting records of the Board. Funding is obtained through federal, state, local, and private sources. Aitkin County provided \$1,500 to this organization during 2005.

Complete financial information can be obtained from:

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

Snake River Watershed Management Board

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

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Snake River Watershed Management Board (Continued)

Aitkin County provided \$10,079 to this organization during 2005. Upon dissolution, the personal property shall be returned to the member county contributing the same.

Complete financial information can be obtained from:

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

Minnesota Counties Information System (MCIS)

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

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

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

Separate financial information can be obtained from:

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

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

C. Jointly-Governed Organization

Aitkin County Family Services Collaborative

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

D. Minnesota Community Capital Fund

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

E. Tax-Forfeited Land

The County manages approximately 221,781 acres of state-owned, tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs, such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Reporting Entity

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

Cash and Pooled Investments

All cash of the Commission is on deposit with the Aitkin County Treasurer.

B. Detailed Notes

Capital Assets

Commission capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 75,690	\$ -	\$ -	\$ 75,690
Capital assets depreciated				
Buildings	\$ 195,303	\$ -	\$ -	\$ 195,303
Runways and improvements	976,226	126,395	-	1,102,621
Machinery, furniture, and equipment	220,997	20,492	-	241,489
Total capital assets depreciated	\$ 1,392,526	\$ 146,887	\$ -	\$ 1,539,413
Less: accumulated depreciation for				
Buildings	\$ 63,169	\$ 8,500	\$ -	\$ 71,669
Runways and improvements	645,975	65,932	-	711,907
Machinery, furniture, and equipment	91,510	15,758	-	107,268
Total accumulated depreciation	\$ 800,654	\$ 90,190	\$ -	\$ 890,844
Total capital assets depreciated, net	\$ 591,872	\$ 56,697	\$ -	\$ 648,569
Total Capital Assets, Net	\$ 667,562	\$ 56,697	\$ -	\$ 724,259

Depreciation of \$90,190 was charged for 2005.

REQUIRED SUPPLEMENTARY INFORMATION

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**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 6,057,801	\$ 6,057,801	\$ 4,483,087	\$ (1,574,714)
Licenses and permits	85,200	85,200	93,959	8,759
Intergovernmental	1,091,678	1,091,678	2,607,635	1,515,957
Charges for services	684,383	684,383	1,486,716	802,333
Fines and forfeits	49,150	49,150	51,205	2,055
Investment earnings	250,000	250,000	748,472	498,472
Miscellaneous	351,631	351,631	244,712	(106,919)
Total Revenues	\$ 8,569,843	\$ 8,569,843	\$ 9,715,786	\$ 1,145,943
Expenditures				
Current				
General government				
Commissioners	\$ 207,394	\$ 207,394	\$ 205,073	\$ 2,321
Courts	49,500	49,500	71,995	(22,495)
County administration	280,018	280,018	263,660	16,358
County auditor	478,769	478,769	456,223	22,546
License bureau	-	-	237	(237)
County treasurer	189,449	189,449	187,473	1,976
County assessor	555,758	555,758	549,937	5,821
Elections	1,877	1,877	3,002	(1,125)
Internal audit	-	-	5,771	(5,771)
Data processing	296,840	296,840	255,084	41,756
Central services	283,594	283,594	158,273	125,321
Attorney	563,533	563,533	576,309	(12,776)
Recorder	181,324	181,324	203,119	(21,795)
Planning and zoning	329,625	329,625	312,994	16,631
Buildings and plant	-	-	18,511	(18,511)
Maintenance	295,432	295,432	298,662	(3,230)
Veterans service officer	66,884	66,884	66,575	309
Pollution control	40,747	40,747	14,013	26,734
Housing and development	1,500	1,500	1,150	350
Total general government	\$ 3,822,244	\$ 3,822,244	\$ 3,648,061	\$ 174,183

**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,647,405	\$ 1,647,405	\$ 1,411,255	\$ 236,150
Boat and water safety	74,717	74,717	62,554	12,163
Coroner	39,500	39,500	46,997	(7,497)
Snowmobile	24,488	24,488	2,626	21,862
E-911 system	2,850	2,850	11,222	(8,372)
Community corrections	2,019,205	2,019,205	1,989,922	29,283
Caseload reduction	-	-	25,842	(25,842)
Crime victim	-	-	182	(182)
Civil defense	15,555	15,555	44,172	(28,617)
Juvenile detention	124,500	124,500	129,299	(4,799)
Juvenile diversion	39,000	39,000	39,796	(796)
Other public safety	45,254	45,254	46,127	(873)
Total public safety	\$ 4,032,474	\$ 4,032,474	\$ 3,809,994	\$ 222,480
Sanitation				
Solid waste	\$ 298,824	\$ 298,824	\$ 265,576	\$ 33,248
Environmental health	61,454	61,454	55,417	6,037
Total sanitation	\$ 360,278	\$ 360,278	\$ 320,993	\$ 39,285
Health				
Water wells	\$ 4,500	\$ 4,500	\$ 7,285	\$ (2,785)
Culture and recreation				
Historical society	\$ 14,810	\$ 14,810	\$ 14,591	\$ 219
Parks	534,997	534,997	388,571	146,426
Regional library	173,253	173,253	173,038	215
Tourism	22,300	22,300	17,044	5,256
Total culture and recreation	\$ 745,360	\$ 745,360	\$ 593,244	\$ 152,116
Conservation of natural resources				
Cooperative extension	\$ 100,576	\$ 100,576	\$ 97,819	\$ 2,757
Soil and water conservation	99,955	99,955	82,729	17,226
Agricultural inspections	3,655	3,655	3,521	134
Agricultural society/County fair	10,000	10,000	11,302	(1,302)
Total conservation of natural resources	\$ 214,186	\$ 214,186	\$ 195,371	\$ 18,815

**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Community development	\$ 915	\$ 915	\$ 593	\$ 322
Airports	16,400	16,400	16,400	-
Other	66,981	66,981	64,632	2,349
Total economic development	\$ 84,296	\$ 84,296	\$ 81,625	\$ 2,671
Intergovernmental				
Public safety				
Central Minnesota Community Corrections	\$ 93,425	\$ 93,425	\$ 93,425	\$ -
Debt service				
Principal	\$ 75,000	\$ 75,000	\$ 109,252	\$ (34,252)
Interest	\$ 40,000	\$ 40,000	\$ 32,415	\$ 7,585
Total Expenditures	\$ 9,471,763	\$ 9,471,763	\$ 8,891,665	\$ 580,098
Excess of Revenues Over (Under) Expenditures	\$ (901,920)	\$ (901,920)	\$ 824,121	\$ 1,726,041
Other Financing Sources (Uses)				
Transfers in	\$ 326,000	\$ 326,000	\$ 1,067,371	\$ 741,371
Transfers out	-	-	(175,017)	(175,017)
Total Other Financing Sources (Uses)	\$ 326,000	\$ 326,000	\$ 892,354	\$ 566,354
Net Change in Fund Balance	\$ (575,920)	\$ (575,920)	\$ 1,716,475	\$ 2,292,395
Fund Balance - January 1	14,706,411	14,706,411	14,706,411	-
Fund Balance - December 31	\$ 14,130,491	\$ 14,130,491	\$ 16,422,886	\$ 2,292,395

**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,567,030	\$ 1,567,030	\$ 1,161,490	\$ (405,540)
Intergovernmental	4,165,500	4,165,500	4,393,494	227,994
Charges for services	243,000	243,000	238,770	(4,230)
Miscellaneous	24,000	24,000	54,021	30,021
Total Revenues	\$ 5,999,530	\$ 5,999,530	\$ 5,847,775	\$ (151,755)
Expenditures				
Current				
Highways and streets				
Administration	\$ 351,528	\$ 351,528	\$ 344,839	\$ 6,689
Engineering	374,899	374,899	320,003	54,896
Maintenance	1,875,603	1,875,603	1,926,160	(50,557)
Construction	3,344,000	3,344,000	3,175,808	168,192
Total Expenditures	\$ 5,946,030	\$ 5,946,030	\$ 5,766,810	\$ 179,220
Excess of Revenues Over (Under) Expenditures	\$ 53,500	\$ 53,500	\$ 80,965	\$ 27,465
Other Financing Sources (Uses)				
Transfers in	-	-	42,609	42,609
Net Change in Fund Balance	\$ 53,500	\$ 53,500	\$ 123,574	\$ 70,074
Fund Balance - January 1	2,966,128	2,966,128	2,966,128	-
Increase (decrease) in reserved for inventories	-	-	(61,195)	(61,195)
Fund Balance - December 31	\$ 3,019,628	\$ 3,019,628	\$ 3,028,507	\$ 8,879

**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HEALTH AND HUMAN SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,275,097	\$ 2,275,097	\$ 1,692,695	\$ (582,402)
Intergovernmental	3,095,656	3,095,656	3,506,145	410,489
Charges for services	20,200	20,200	34,249	14,049
Miscellaneous	322,461	322,461	405,744	83,283
Total Revenues	\$ 5,713,414	\$ 5,713,414	\$ 5,638,833	\$ (74,581)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,192,879	\$ 1,192,879	\$ 1,147,329	\$ 45,550
Social services	3,975,648	3,975,648	3,798,950	176,698
Total human services	\$ 5,168,527	\$ 5,168,527	\$ 4,946,279	\$ 222,248
Health				
Nursing service	\$ 18,995	\$ 18,995	\$ 20,099	\$ (1,104)
Transportation	53,000	53,000	66,220	(13,220)
Maternal and child health	19,041	19,041	20,446	(1,405)
Miscellaneous	453,851	453,851	384,604	69,247
Total health	\$ 544,887	\$ 544,887	\$ 491,369	\$ 53,518
Total Expenditures	\$ 5,713,414	\$ 5,713,414	\$ 5,437,648	\$ 275,766
Net Change in Fund Balance	\$ -	\$ -	\$ 201,185	\$ 201,185
Fund Balance - January 1	2,874,922	2,874,922	2,874,922	-
Fund Balance - December 31	\$ 2,874,922	\$ 2,874,922	\$ 3,076,107	\$ 201,185

**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SALE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 172,000	\$ 172,000	\$ 216,934	\$ 44,934
Charges for services	30,000	30,000	34,055	4,055
Investment earnings	200	200	-	(200)
Miscellaneous	1,619,050	1,619,050	2,313,413	694,363
Total Revenues	\$ 1,821,250	\$ 1,821,250	\$ 2,564,402	\$ 743,152
Expenditures				
Current				
General government				
Insurance	\$ 100,000	\$ 100,000	\$ 11,100	\$ 88,900
Law library	30,000	30,000	48,484	(18,484)
Lifeline subsidy	200	200	636	(436)
Other	-	-	3,500	(3,500)
Total general government	\$ 130,200	\$ 130,200	\$ 63,720	\$ 66,480
Conservation of natural resources				
County development	\$ 180,444	\$ 180,444	\$ 114,743	\$ 65,701
Consolidated conservation	1,000	1,000	1	999
Forfeited tax	828,690	828,690	1,092,828	(264,138)
Other	50	50	-	50
Total conservation of natural resources	\$ 1,010,184	\$ 1,010,184	\$ 1,207,572	\$ (197,388)
Total Expenditures	\$ 1,140,384	\$ 1,140,384	\$ 1,271,292	\$ (130,908)
Excess of Revenues Over (Under) Expenditures	\$ 680,866	\$ 680,866	\$ 1,293,110	\$ 612,244
Other Financing Sources (Uses)				
Transfers out	(695,046)	(695,046)	(1,180,690)	(485,644)
Net Change in Fund Balance	\$ (14,180)	\$ (14,180)	\$ 112,420	\$ 126,600
Fund Balance - January 1	1,506,188	1,506,188	1,506,188	-
Fund Balance - December 31	\$ 1,492,008	\$ 1,492,008	\$ 1,618,608	\$ 126,600

**AITKIN COUNTY
AITKIN, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Budgetary Information

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

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

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

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2005, expenditures exceeded appropriations in the Forfeited Tax Sale Special Revenue Fund by \$130,908. The overexpenditures were funded by greater than anticipated revenues.

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SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

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**AITKIN COUNTY
AITKIN, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	Special Revenue	Jail Bond Debt Service	Environmental Permanent	Total
<u>Assets</u>				
Cash and pooled investments	\$ 1,588,582	\$ 111,615	\$ 465,745	\$ 2,165,942
Taxes receivable				
Prior	3,268	13,586	-	16,854
Special assessments receivable				
Prior	1,825	-	-	1,825
Noncurrent	24,526	-	-	24,526
Accounts receivable	-	-	22,568	22,568
Due from other funds	567,356	-	-	567,356
	\$ 2,185,557	\$ 125,201	\$ 488,313	\$ 2,799,071
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 4,039	\$ -	\$ -	\$ 4,039
Salaries payable	6,118	-	-	6,118
Due to other funds	36,853	-	-	36,853
Deferred revenue - unavailable	28,672	9,160	22,568	60,400
Compensated absences payable	552	-	-	552
	\$ 76,234	\$ 9,160	\$ 22,568	\$ 107,962
Fund Balances				
Reserved for environmental purposes	\$ -	\$ -	\$ 465,745	\$ 465,745
Unreserved				
Designated for debt service	-	116,041	-	116,041
Undesignated	2,109,323	-	-	2,109,323
	\$ 2,109,323	\$ 116,041	\$ 465,745	\$ 2,691,109
Total Liabilities and Fund Balances	\$ 2,185,557	\$ 125,201	\$ 488,313	\$ 2,799,071

**AITKIN COUNTY
AITKIN, MINNESOTA**

Statement 2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Special Revenue</u>	<u>Jail Bond Debt Service</u>	<u>Environmental Permanent</u>	<u>Total</u>
Revenues				
Taxes	\$ 82,439	\$ 329,638	\$ -	\$ 412,077
Special assessments	1,502	-	-	1,502
Licenses and permits	4,096	-	-	4,096
Intergovernmental	170,357	113,003	-	283,360
Investment earnings	2,379	-	15,679	18,058
Miscellaneous	17,693	-	7,026	24,719
Total Revenues	\$ 278,466	\$ 442,641	\$ 22,705	\$ 743,812
Expenditures				
Current				
General government	\$ 1,304	\$ -	\$ -	\$ 1,304
Public safety	9,527	-	-	9,527
Highways and streets	3,665	-	-	3,665
Conservation of natural resources	413,897	-	-	413,897
Debt service				
Principal	-	275,000	-	275,000
Interest	-	142,955	-	142,955
Bond issuance costs	-	32,919	-	32,919
Total Expenditures	\$ 428,393	\$ 450,874	\$ -	\$ 879,267
Excess of Revenues Over (Under) Expenditures	\$ (149,927)	\$ (8,233)	\$ 22,705	\$ (135,455)
Other Financing Sources (Uses)				
Transfers in	\$ 571,962	\$ -	\$ -	\$ 571,962
Transfers out	(501,252)	-	(9,891)	(511,143)
Refunding bond issued	-	2,920,000	-	2,920,000
Premium on bond issued	-	189,444	-	189,444
Refund of bond	-	(3,075,000)	-	(3,075,000)
Total Other Financing Sources (Uses)	\$ 70,710	\$ 34,444	\$ (9,891)	\$ 95,263
Net Change in Fund Balance	\$ (79,217)	\$ 26,211	\$ 12,814	\$ (40,192)
Fund Balance - January 1	2,188,540	89,830	452,931	2,731,301
Fund Balance - December 31	\$ 2,109,323	\$ 116,041	\$ 465,745	\$ 2,691,109

**AITKIN COUNTY
AITKIN, MINNESOTA**

Statement 3

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2005**

	Forest Development	Unorganized Road, Bridge, and Fire	Ditch	Total
<u>Assets</u>				
Cash and pooled investments	\$ 1,173,653	\$ 404,056	\$ 10,873	\$ 1,588,582
Taxes receivable				
Prior	-	3,268	-	3,268
Special assessments receivable				
Prior	-	-	1,825	1,825
Noncurrent	-	-	24,526	24,526
Due from other funds	535,245	32,111	-	567,356
Total Assets	\$ 1,708,898	\$ 439,435	\$ 37,224	\$ 2,185,557
 <u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 3,839	\$ -	\$ 200	\$ 4,039
Salaries payable	6,118	-	-	6,118
Due to other funds	-	5,704	31,149	36,853
Deferred revenue - unavailable	-	2,321	26,351	28,672
Compensated absences payable	552	-	-	552
Total Liabilities	\$ 10,509	\$ 8,025	\$ 57,700	\$ 76,234
 Fund Balances				
Unreserved				
Undesignated	1,698,389	431,410	(20,476)	2,109,323
Total Liabilities and Fund Balances	\$ 1,708,898	\$ 439,435	\$ 37,224	\$ 2,185,557

**AITKIN COUNTY
AITKIN, MINNESOTA**

Statement 4

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Forest Development	Unorganized Road, Bridge, and Fire	Ditch	Economic Development	Total
Revenues					
Taxes	\$ -	\$ 82,439	\$ -	\$ -	\$ 82,439
Special assessments	-	-	1,502	-	1,502
Licenses and permits	4,096	-	-	-	4,096
Intergovernmental	147,206	23,151	-	-	170,357
Investment earnings	-	-	1,014	1,365	2,379
Miscellaneous	17,673	20	-	-	17,693
Total Revenues	\$ 168,975	\$ 105,610	\$ 2,516	\$ 1,365	\$ 278,466
Expenditures					
Current					
General government	\$ -	\$ 1,304	\$ -	\$ -	\$ 1,304
Public safety	-	9,527	-	-	9,527
Highways and streets	-	-	3,665	-	3,665
Conservation of natural resources	413,897	-	-	-	413,897
Total Expenditures	\$ 413,897	\$ 10,831	\$ 3,665	\$ -	\$ 428,393
Excess of Revenues Over (Under) Expenditures	\$ (244,922)	\$ 94,779	\$ (1,149)	\$ 1,365	\$ (149,927)
Other Financing Sources (Uses)					
Transfers in	\$ 539,851	\$ 32,111	\$ -	\$ -	\$ 571,962
Transfers out	-	(39,453)	(3,156)	(458,643)	(501,252)
Total Other Financing Sources (Uses)	\$ 539,851	\$ (7,342)	\$ (3,156)	\$ (458,643)	\$ 70,710
Net Change in Fund Balance	\$ 294,929	\$ 87,437	\$ (4,305)	\$ (457,278)	\$ (79,217)
Fund Balance - January 1	1,403,460	343,973	(16,171)	457,278	2,188,540
Fund Balance - December 31	\$ 1,698,389	\$ 431,410	\$ (20,476)	\$ -	\$ 2,109,323

**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
FOREST DEVELOPMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Licenses and permits	\$ 4,000	\$ 4,000	\$ 4,096	\$ 96
Intergovernmental	137,200	137,200	147,206	10,006
Miscellaneous	192,050	192,050	17,673	(174,377)
Total Revenues	\$ 333,250	\$ 333,250	\$ 168,975	\$ (164,275)
Expenditures				
Current				
Conservation of natural resources				
Forest resource	\$ 125,674	\$ 125,674	\$ 126,558	\$ (884)
Reforestation	389,750	389,750	113,355	276,395
Memorial forest	91,700	91,700	130,148	(38,448)
Forest road	43,946	43,946	43,836	110
Gravel pit	6,000	6,000	-	6,000
Total Expenditures	\$ 657,070	\$ 657,070	\$ 413,897	\$ 243,173
Excess of Revenues Over (Under) Expenditures	\$ (323,820)	\$ (323,820)	\$ (244,922)	\$ 78,898
Other Financing Sources (Uses)				
Transfers in	320,000	320,000	539,851	219,851
Net Change in Fund Balance	\$ (3,820)	\$ (3,820)	\$ 294,929	\$ 298,749
Fund Balance - January 1	1,403,460	1,403,460	1,403,460	-
Fund Balance - December 31	\$ 1,399,640	\$ 1,399,640	\$ 1,698,389	\$ 298,749

**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
UNORGANIZED ROAD, BRIDGE, AND FIRE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 70,690	\$ 70,690	\$ 82,439	\$ 11,749
Intergovernmental	-	-	23,151	23,151
Miscellaneous	-	-	20	20
Total Revenues	\$ 70,690	\$ 70,690	\$ 105,610	\$ 34,920
Expenditures				
Current				
General government				
Other general government	\$ 1,240	\$ 1,240	\$ 1,304	\$ (64)
Public safety				
Emergency services	20,700	20,700	9,527	11,173
Total Expenditures	\$ 21,940	\$ 21,940	\$ 10,831	\$ 11,109
Excess of Revenues Over (Under) Expenditures	\$ 48,750	\$ 48,750	\$ 94,779	\$ 46,029
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 32,111	\$ 32,111
Transfers out	(48,750)	(48,750)	(39,453)	9,297
Total Other Financing Sources (Uses)	\$ (48,750)	\$ (48,750)	\$ (7,342)	\$ 41,408
Net Change in Fund Balance	\$ -	\$ -	\$ 87,437	\$ 87,437
Fund Balance - January 1	343,973	343,973	343,973	-
Fund Balance - December 31	\$ 343,973	\$ 343,973	\$ 431,410	\$ 87,437

**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 1,004	\$ 1,004	\$ 1,502	\$ 498
Investment earnings	940	940	1,014	74
Total Revenues	\$ 1,944	\$ 1,944	\$ 2,516	\$ 572
Expenditures				
Current				
Highways and streets				
Other highways and streets	3,247	3,247	3,665	(418)
Excess of Revenues Over (Under) Expenditures	\$ (1,303)	\$ (1,303)	\$ (1,149)	\$ 154
Other Financing Sources (Uses)				
Transfers out	-	-	(3,156)	(3,156)
Net Change in Fund Balance	\$ (1,303)	\$ (1,303)	\$ (4,305)	\$ (3,002)
Fund Balance - January 1	(16,171)	(16,171)	(16,171)	-
Fund Balance - December 31	\$ (17,474)	\$ (17,474)	\$ (20,476)	\$ (3,002)

**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 8

**BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Investment earnings	\$ -	\$ -	\$ 1,365	\$ 1,365
Expenditures				
Current				
Economic development	100,000	100,000	-	100,000
Excess of Revenues Over (Under)				
Expenditures	\$ (100,000)	\$ (100,000)	\$ 1,365	\$ 101,365
Other Financing Sources (Uses)				
Transfers in	\$ 131,000	\$ 131,000	\$ -	\$ (131,000)
Transfers out	-	-	(458,643)	(458,643)
Total Other Financing Sources (Uses)	\$ 131,000	\$ 131,000	\$ (458,643)	\$ (589,643)
Net Change in Fund Balance	\$ 31,000	\$ 31,000	\$ (457,278)	\$ (488,278)
Fund Balance - January 1	457,278	457,278	457,278	-
Fund Balance - December 31	\$ 488,278	\$ 488,278	\$ -	\$ (488,278)

**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 9

**BUDGETARY COMPARISON SCHEDULE
JAIL BOND DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 438,853	\$ 438,853	\$ 329,638	\$ (109,215)
Intergovernmental	-	-	113,003	113,003
Total Revenues	\$ 438,853	\$ 438,853	\$ 442,641	\$ 3,788
Expenditures				
Debt service				
Principal	\$ 265,000	\$ 265,000	\$ 275,000	\$ (10,000)
Interest	148,586	148,586	142,955	5,631
Bond issuance costs	-	-	32,919	(32,919)
Total Expenditures	\$ 413,586	\$ 413,586	\$ 450,874	\$ (37,288)
Excess of Revenues Over (Under) Expenditures	\$ 25,267	\$ 25,267	\$ (8,233)	\$ (33,500)
Other Financing Sources (Uses)				
Refunding bond issued	\$ -	\$ -	\$ 2,920,000	\$ 2,920,000
Premium on bond issued	-	-	189,444	189,444
Refund of bond	-	-	(3,075,000)	(3,075,000)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 34,444	\$ 34,444
Net Change in Fund Balance	\$ 25,267	\$ 25,267	\$ 26,211	\$ 944
Fund Balance - January 1	89,830	89,830	89,830	-
Fund Balance - December 31	\$ 115,097	\$ 115,097	\$ 116,041	\$ 944

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FIDUCIARY FUNDS

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**AIKTIN COUNTY
AITKIN, MINNESOTA**

Statement 5

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 451,460	\$ 6,730,194	\$ 6,728,782	\$ 452,872
<u>Liabilities</u>				
Due to other governments	\$ 451,460	\$ 6,730,194	\$ 6,728,782	\$ 452,872
 <u>COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 97,327	\$ 209,725	\$ 156,623	\$ 150,429
<u>Liabilities</u>				
Accounts payable	\$ 97,327	\$ 209,725	\$ 156,623	\$ 150,429
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 156,696	\$ 3,599,769	\$ 3,588,507	\$ 167,958
<u>Liabilities</u>				
Due to other governments	\$ 156,696	\$ 3,599,769	\$ 3,588,507	\$ 167,958

**AIKTIN COUNTY
AITKIN, MINNESOTA**

*Statement 5
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 19,701,704	\$ 19,701,704	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 19,701,704	\$ 19,701,704	\$ -
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 705,483	\$ 30,241,392	\$ 30,175,616	\$ 771,259
<u>Liabilities</u>				
Accounts payable	\$ 97,327	\$ 209,725	\$ 156,623	\$ 150,429
Due to other governments	608,156	30,031,667	30,018,993	620,830
Total Liabilities	\$ 705,483	\$ 30,241,392	\$ 30,175,616	\$ 771,259

COMPONENT UNIT

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**AITKIN COUNTY
AITKIN, MINNESOTA**

Statement 6

**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
COMPONENT UNIT
AITKIN MUNICIPAL AIRPORT COMMISSION
DECEMBER 31, 2005**

	General Fund	Adjustments (See Below)	Statement of Net Assets
<u>Assets</u>			
Cash and pooled investments	\$ 67,775	\$ -	\$ 67,775
Capital assets			
Non-depreciable	-	75,690	75,690
Depreciable - net	-	648,569	648,569
	<u>\$ 67,775</u>	<u>\$ 724,259</u>	<u>\$ 792,034</u>
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved			
Undesignated	<u>\$ 67,775</u>	<u>\$ (67,775)</u>	
Net Assets			
Invested in capital assets		\$ 724,259	\$ 724,259
Unrestricted		<u>67,775</u>	<u>67,775</u>
		<u>\$ 792,034</u>	<u>\$ 792,034</u>
<u>Reconciliation of the General Fund Balance to Net Assets</u>			
General Fund Balance			\$ 67,775
Capital assets are reported on the Statement of Net Assets but not in the General Fund Balance Sheet			<u>724,259</u>
			<u>\$ 792,034</u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

Statement 7

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
COMPONENT UNIT
AITKIN MUNICIPAL AIRPORT COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General Fund	Adjustments (See Below)	Statement of Activities
Revenues			
Intergovernmental	\$ 174,597	\$ -	\$ 174,597
Charges for services	16,823	-	16,823
Investment earnings	208	-	208
	\$ 191,628	\$ -	\$ 191,628
Expenditures			
Current			
Economic development	\$ 33,044	\$ 90,190	\$ 123,234
Capital outlay	146,887	(146,887)	-
	\$ 179,931	\$ (56,697)	\$ 123,234
Net Change in Fund Balance/Net Assets	\$ 11,697	\$ 56,697	\$ 68,394
Fund Balance/Net Assets - January 1	56,078	667,562	723,640
Fund Balance/Net Assets - December 31	\$ 67,775	\$ 724,259	\$ 792,034

Reconciliation of the Change in Fund Balance to the Change in Net Assets

Net Change in Fund Balance	\$ 11,697
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the assets' estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	146,887
Depreciation expense	(90,190)
Change in Net Assets	\$ 68,394

OTHER SCHEDULES

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**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 10

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Primary Government			Component Unit
	Governmental Funds	Enterprise Funds	Total	
Shared Revenue				
State				
Highway users tax	\$ 2,704,079	\$ -	\$ 2,704,079	\$ -
Program aid	999,204	-	999,204	-
PERA rate reimbursement	28,165	1,888	30,053	-
Disparity reduction aid	10,738	-	10,738	-
Police aid	80,803	-	80,803	-
Taconite credit	561,816	-	561,816	-
Enhanced 911	67,431	-	67,431	-
Market value credit	975,594	-	975,594	-
Total Shared Revenue	\$ 5,427,830	\$ 1,888	\$ 5,429,718	\$ -
Reimbursement for Services				
Minnesota Department of Human Services	\$ 1,505,474	\$ -	\$ 1,505,474	\$ -
Payments				
Local contributions	\$ 311,659	\$ 7,106	\$ 318,765	\$ 26,643
State - payments in lieu of taxes	858,057	-	858,057	-
Total Payments	\$ 1,169,716	\$ 7,106	\$ 1,176,822	\$ 26,643
Grants				
State				
Minnesota Department/Board of				
Crime Victim Services	\$ 9,458	\$ -	\$ 9,458	\$ -
Transportation	57,918	-	57,918	31,960
Health	113,965	-	113,965	-
Natural Resources	271,914	-	271,914	-
Human Services	788,332	-	788,332	-
Soil and Water Resources	31,223	-	31,223	-
Veterans Services	703	-	703	-
Office of Environmental Assistance	49,079	-	49,079	-
Total State	\$ 1,322,592	\$ -	\$ 1,322,592	\$ 31,960
Federal				
Department of				
Agriculture	\$ 62,661	\$ -	\$ 62,661	\$ -
Justice	27,951	-	27,951	-
Transportation	921,642	-	921,642	115,994
Health and Human Services	541,969	-	541,969	-
Homeland Security	27,733	-	27,733	-
Total Federal	\$ 1,581,956	\$ -	\$ 1,581,956	\$ 115,994
Total State and Federal Grants	\$ 2,904,548	\$ -	\$ 2,904,548	\$ 147,954
Total Intergovernmental Revenue	\$ 11,007,568	\$ 8,994	\$ 11,016,562	\$ 174,597

**AITKIN COUNTY
AITKIN, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2005**

	Assets			
	Cash	Special Assessments Receivable	Due from Other Ditches	Total
County Ditches				
2	\$ -	\$ -	\$ -	\$ -
5	(11,140)	-	-	(11,140)
13	-	-	-	-
14	-	-	-	-
20	(747)	-	-	(747)
21	(421)	-	-	(421)
23	(443)	-	-	(443)
24	(13,458)	369	1,500	(11,589)
25	(240)	-	-	(240)
28	(2,144)	-	-	(2,144)
29	-	-	-	-
30	25,748	1,294	11,861	38,903
34	1,481	978	-	2,459
36	2,755	1,208	-	3,963
37	(2,594)	8,556	-	5,962
42	(1,518)	-	-	(1,518)
43	(76)	-	-	(76)
58	(130)	-	-	(130)
63	679	13,783	-	14,462
66	2,220	-	-	2,220
88	-	-	-	-
Judicial Ditch				
2	10,901	163	-	11,064
Total	\$ 10,873	\$ 26,351	\$ 13,361	\$ 50,585

Schedule 11

Accounts Payable	Due to Other Funds	Liabilities		Total	Fund Balance	Total Liabilities and Fund Balance
		Deferred Revenue	Due to Other Ditches			
\$ -	\$ 1,160	\$ -	\$ -	\$ 1,160	\$ (1,160)	\$ -
-	3,654	-	7,250	10,904	(22,044)	(11,140)
-	488	-	-	488	(488)	-
-	317	-	-	317	(317)	-
-	-	-	-	-	(747)	(747)
-	756	-	-	756	(1,177)	(421)
-	241	-	-	241	(684)	(443)
200	120	369	-	689	(12,278)	(11,589)
-	-	-	-	-	(240)	(240)
-	7,859	-	1,287	9,146	(11,290)	(2,144)
-	265	-	-	265	(265)	-
-	-	1,294	-	1,294	37,609	38,903
-	520	978	65	1,563	896	2,459
-	-	1,208	65	1,273	2,690	3,963
-	369	8,556	2,173	11,098	(5,136)	5,962
-	1,202	-	935	2,137	(3,655)	(1,518)
-	149	-	76	225	(301)	(76)
-	-	-	-	-	(130)	(130)
-	13,685	13,783	-	27,468	(13,006)	14,462
-	-	-	1,510	1,510	710	2,220
-	364	-	-	364	(364)	-
-	-	163	-	163	10,901	11,064
\$ 200	\$ 31,149	\$ 26,351	\$ 13,361	\$ 71,061	\$ (20,476)	\$ 50,585

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**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 12

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Aitkin County.
- B. A reportable condition in internal control was disclosed by the audit of financial statements of Aitkin County and is 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*." It was not a material weakness.
- C. No instances of noncompliance material to the financial statements of Aitkin County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award 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 Aitkin County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:
 - Highway Planning and Construction
 - CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Aitkin County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-5 Departmental Internal Accounting Controls

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

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

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

Client's Response:

County management is aware of this situation, however, the County lacks the resources to staff departments to levels needed to provide segregation of functions. County management will review internal controls and transactions.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 Unclaimed Property

Minn. Stat. § 345.38 states that assets remaining unclaimed by the owner for more than three years are presumed abandoned. Minn. Stat. § 345.41 requires that anyone holding assets presumed abandoned must file a report annually with the Minnesota Commissioner of Commerce. Two bank accounts maintained by the County had outstanding checks totaling several thousand dollars that were more than three years old, but no report of abandoned property was filed with the Commissioner of Commerce.

We recommend the County comply with the abandoned property statutes.

Client's Response:

The County Treasurer will turn over the uncashed checks as soon as the County Attorney gets Road and Bridge checks that are in the Clerk of Court's office corrected.

PREVIOUSLY REPORTED ITEMS RESOLVED

Prompt Payment of Invoices (00-2)

The County paid an invoice after the 35-day period specified by Minn. Stat. § 471.425.

Resolution

No such instances were noted in the current audit.

Advance Between Funds (02-1)

The County made a loan between funds with a repayment period in excess of the time period specified by Minn. Stat. § 385.32.

Resolution

The County made a transfer, eliminating the interfund loan.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-3 Ditch Fund Balance Deficits

Seventeen of the 22 individual ditch systems had deficit unreserved, undesignated fund balances as of December 31, 2005, totaling \$73,282, the largest being \$22,044. Minn. Stat. § 103E.735, subd. 1, provides that a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

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

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

The DNR is now in the process of preparing a draft rule that may be proposed pursuant to the statutory requirement. If a rule is passed, it will give counties a way to try and persuade the DNR that consolidated conservation lands are benefited.

We recommend that the County monitor the progress of the DNR rule. If a rule is established, the County should work with the DNR in determining what assessments, if any, the DNR will pay related to the DNR’s share of the ditch fund deficit. After the issue with the DNR is resolved, we recommend that the County eliminate the ditch system fund balance deficits by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus balance to provide for the repair and maintenance costs of a ditch system and repay the solvent ditch funds for the intrafund loans.

Client's Response:

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

03-3

Aitkin Municipal Airport Commission

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

The agreement between the County and City creating the Aitkin Municipal Airport Commission, dated September 8, 1971, established two special funds to account for airport activities. The agreement specifies airport activities are to be accounted for by the County Auditor. Current accounting procedures are not in compliance with accounting procedures specified in the agreement. We also noted that the agreement establishes the Airport Commission's fiscal year-end as April 30. However, the Airport Commission is reported with the County's financial statements on a calendar year basis.

We recommend the City and County amend the Aitkin Municipal Airport Commission agreement and change its fiscal year-end to December 31. Current accounting procedures should be reviewed and modified to ensure compliance with the agreement. A separate accounting fund should be established on the County's accounting system to account for all airport operations, including grants. The Airport Commission's checking account should be closed and its cash reported as a separate account within the County's pooled cash and investments.

Client's Response:

Currently, the accounts are maintained by the County Treasurer on a manual system apart from the County's general accounting system. The potential resolution of this item will be addressed after the new County Treasurer takes office in 2007.

ITEM ARISING THIS YEAR

05-1 Commercial Paper Purchase

In December 2005, the County purchased \$2,000,000 in commercial paper from one issuer. The County's investment policy states, "corporate securities may be held up to \$500,000 per issuer."

We recommend that the County Treasurer purchase investments in accordance with the County's investment policy. We also recommend that the County periodically review and update its investment policy to ensure that it meets the County's investment objectives.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

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

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

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

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

Client's Response:

Aitkin County makes health insurance available to retired employees at the employee's expense. The County does not directly contribute to the insurance premium for retirees. However, an indirect contribution of funds to retiree health plans could be deemed as retiree claims are considered when claims experience is calculated for premium renewals. Retired employees are not allowed to fund insurance premiums with accumulated sick leave funds. Currently, eleven individuals participate in the retiree health plans offered by Aitkin County.

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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Aitkin County

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Aitkin County as of and for the year ended December 31, 2005, and have issued our report thereon dated August 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Aitkin County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 96-5.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Aitkin County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 96-1.

This report is intended for the information and use of the Board of County Commissioners, audit committee, management, 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/Pat Anderson

/s/Greg Hierlinger

PATRICIA ANDERSON
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 10, 2006



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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Aitkin County

Compliance

We have audited the compliance of Aitkin County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2005. Aitkin 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.

Aitkin County's basic financial statements include the operations of the Aitkin County Municipal Airport Commission, a discretely presented component unit, which expended \$115,994 in federal awards during the year ended December 31, 2005, which are not included in the Schedule of Expenditures of Federal Awards because those funds were included in the audit of the City of Aitkin.

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

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

In our opinion, Aitkin County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

Internal Control Over Compliance

The management of Aitkin County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Aitkin County as of and for the year ended December 31, 2005, and have issued our report thereon dated August 10, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended for the information of the Board of County Commissioners, audit committee, management, 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 10, 2006

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**AITKIN COUNTY
AITKIN, MINNESOTA**

Schedule 13

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health Special Supplemental Nutrition for Women, Infants, and Children (WIC)		10.557	\$ 62,661
U.S. Department of Justice			
Passed Through Minnesota Department of Employment and Economic Development Juvenile Accountability Incentive Block Grant	2003-00085	16.523	\$ 5,176
Passed Through Minnesota Department of Public Safety Crime Victim Assistance	2005-CVS-00004, 9900-1004	16.575	<u>22,775</u>
Total U.S. Department of Justice			\$ 27,951
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	SP 01-596-01 SP 01-628-09	20.205	\$ 481,226
U.S. Department of Health and Human Services			
Passed Through Arrowhead Regional Development Commission National Family Caregiver Support		93.052	\$ 26,734
Passed Through Minnesota Department of Education Child Care Mandatory and Matching Funds of the Child Care and Development Fund		93.596	7,145
Passed Through Minnesota Department of Health Immunization Grants		93.268	400
Passed Through Minnesota Department of Human Services Centers for Disease Control and Prevention Investigations and Technical Assistance		93.283	22,480
Temporary Assistance for Needy Families (TANF) Family Investment Program		93.558	231,594
Foster Care Title IV-E		93.658	77,890
Social Services Block Grant		93.667	121,811
Chafee Foster Care Independence Program		93.674	7,717
Maternal and Child Health Services Block Grant to the State		93.994	<u>46,198</u>
Total U.S. Department of Health and Human Services			\$ 541,969

**AITKIN COUNTY
AITKIN, MINNESOTA**

***Schedule 13
(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S Department of Homeland Security			
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	A73744	97.012	\$ 1,235
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Program	2000-9951	97.004	15,571
Homeland Security Grant Program	2000-10264	97.067	<u>10,927</u>
Total U.S. Department of Homeland Security			\$ 27,733
Total Federal Awards			<u>\$ 1,141,540</u>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Aitkin County. The reporting entity is defined in Note 1 to the Aitkin County basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Expenditures on this schedule differ from federal revenues reported due to certain expenditures reported when the revenues are not available for recognition using the modified accrual basis of accounting.
3. Aitkin County did not pass any federal money to subrecipients in 2005.
4. Pass-through grant numbers are presented for grants for which they have been assigned.
5. Expenditures for the federal award granted to the Municipal Airport Commission are not included on this schedule because the audit of those funds was included with the audit of the City of Aitkin.