

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MILLE LACS COUNTY
MILACA, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2011

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

For the Year Ended December 31, 2011



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

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

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MILACA, MINNESOTA**

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

ORGANIZATION
2011

Office	Name	Term	
		From	To
Commissioners			
1st District	Jack Edmonds	January 2009	January 2013
2nd District	Dan Whitcomb	January 2011	January 2013
3rd District	Phil Peterson*	January 2009	January 2013
4th District	Roger Tellinghuisen	January 2011	January 2013
5th District	Frank Courteau	January 2009	January 2013
Officers			
Elected			
Attorney	Janice Kolb	January 2011	January 2015
Auditor/Treasurer	Philip Thompson	January 2011	January 2015
Sheriff	Brent Lindgren	January 2011	January 2015
Appointed			
Assessor	Patricia Stotz	January 2009	December 2012
Coroner	Dr. Quinn Strobl	January 2011	December 2011
County Engineer	Bruce Cochran	January 2012	December 2015
Land Services Director	Michele McPherson		Indefinite
Court Services Director	Warren Liepitz		Indefinite
Community and Veterans Service Director	Robert Cornelius		Indefinite
County Administrator	Roxy Traxler		Indefinite

*Board Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Mille Lacs County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mille Lacs County, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mille Lacs County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mille Lacs County as of December 31, 2011, 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.

Mille Lacs County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended December 31, 2011. GASB Statement 54 provides clearer fund balance classifications that can be more consistently applied and clarifies existing governmental fund type definitions.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mille Lacs County's basic financial statements as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2012, on our consideration of Mille Lacs County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 24, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(Unaudited)**

Mille Lacs County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$75,741,121, of which Mille Lacs County has invested \$54,092,978 in capital assets, net of related debt, and \$5,321,295 is restricted to specific purposes/uses by the County.
- The net cost of Mille Lacs County's governmental activities for the year ended December 31, 2011, was \$14,591,275; the net cost was funded by general revenues and other items totaling \$16,688,613.
- At the close of 2011, Mille Lacs County's governmental funds reported combined ending fund balances of \$22,687,018, a decrease of \$485,419 from the previous year-end balance. At the end of the year, Mille Lacs County's assigned and unassigned fund balance totaled \$17,805,501, which is available for spending at the County Board's discretion.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Management’s Discussion and Analysis (Required Supplementary Information)

Government-Wide Financial Statements	Fund Financial Statements
Notes to the Financial Statements	

Required Supplementary Information (Other than Management’s Discussion and Analysis)
--

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

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

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

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

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

Fund Financial Statements

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

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

Proprietary funds--The County maintains one proprietary fund type, an internal service fund, which is an accounting device used to accumulate and allocate costs internally. Mille Lacs County uses an internal service fund to account for its self-insurance activities. These services benefit governmental functions and have been allocated to governmental activities in the government-wide financial statements.

Reporting the County's Fiduciary Responsibilities

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

THE COUNTY AS A WHOLE

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

Table 1
Net Assets

	2011	2010
Current and other assets	\$ 26,750,463	\$ 26,924,713
Capital assets	66,064,464	63,653,271
Total Assets	\$ 92,814,927	\$ 90,577,984
Long-term liabilities outstanding	\$ 15,014,232	\$ 15,560,301
Other liabilities	2,059,574	1,373,900
Total Liabilities	\$ 17,073,806	\$ 16,934,201
Net Assets		
Invested in capital assets, net of related debt	\$ 54,092,978	\$ 51,921,583
Restricted	5,321,295	2,502,581
Unrestricted	16,326,848	19,219,619
Total Net Assets	\$ 75,741,121	\$ 73,643,783

Mille Lacs County's total net assets for the year ended December 31, 2011, were \$75,741,121. The governmental activities' unrestricted net assets, totaling \$16,326,848, is available to finance the day-to-day operations of the governmental activities of Mille Lacs County.

Table 2
Changes in Net Assets

	2011	2010
Program revenues		
Fees, charges, fines, and other	\$ 2,854,893	\$ 3,015,810
Operating grants and contributions	9,364,441	9,741,540
Capital grants and contributions	638,662	1,362,993
General revenues		
Property taxes	13,838,568	13,806,506
Other	2,850,045	2,755,839
Total Revenues	\$ 29,546,609	\$ 30,682,688

	<u>2011</u>	<u>2010</u>
Expenses		
General government	\$ 5,973,568	\$ 5,420,777
Public safety	7,065,881	7,050,479
Highways and streets	5,129,015	4,415,540
Sanitation	80,977	83,265
Human services	7,484,986	7,565,116
Health	706,830	630,917
Culture and recreation	313,129	350,557
Conservation of natural resources	169,906	232,834
Economic development	10,850	14,000
Interest	514,129	555,640
	<u> </u>	<u> </u>
Total Expenses	\$ 27,449,271	\$ 26,319,125
	<u> </u>	<u> </u>
Increase in Net Assets	\$ 2,097,338	\$ 4,363,563
	<u> </u>	<u> </u>
Net Assets, January 1	73,643,783	69,280,220
	<u> </u>	<u> </u>
Net Assets, December 31	\$ 75,741,121	\$ 73,643,783
	<u> </u>	<u> </u>

Governmental Activities

Revenues for Mille Lacs County's governmental activities for the year ended December 31, 2011, were \$29,546,609. The County's cost for all governmental activities for the year ended December 31, 2011, was \$27,449,271. The net assets for the County's governmental activities increased by \$2,097,338 in 2011.

As shown in the Statement of Activities, the amount that Mille Lacs County taxpayers ultimately financed for these governmental activities through local property taxation was \$13,838,568, because \$2,854,893 of the costs were paid by those who directly benefited from the programs, and \$10,003,103 was paid by other governments and organizations that subsidized certain programs with grants and contributions. Mille Lacs County paid for the remaining "public benefit" portion of governmental activities with \$2,229,389 in grants and contributions not restricted to specific programs and \$620,656 in other revenues, such as investment income, mortgage registry tax, and state deed tax.

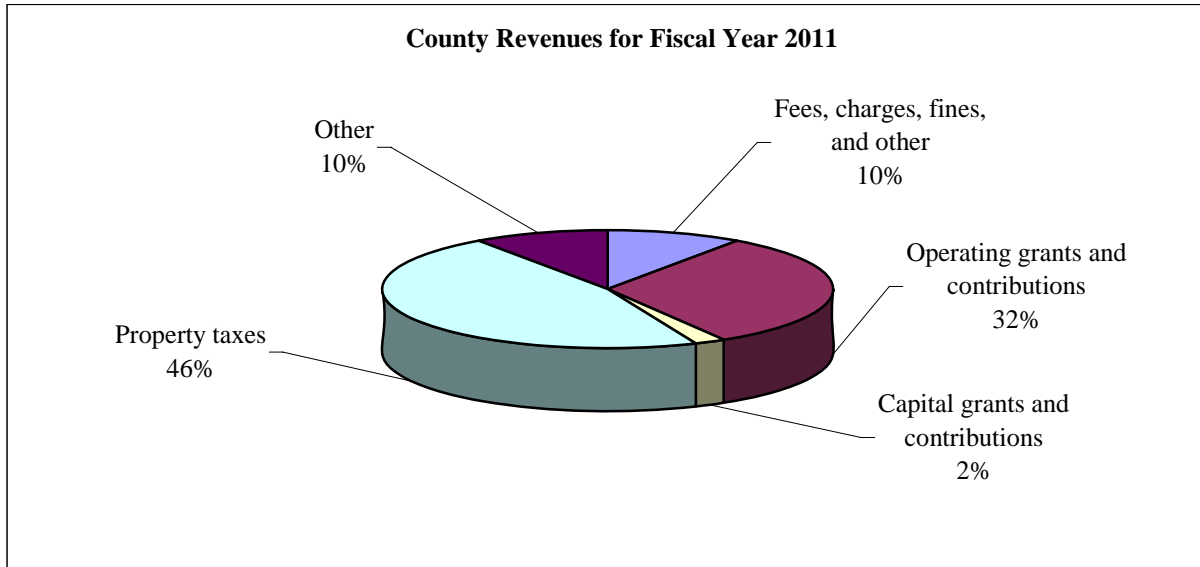
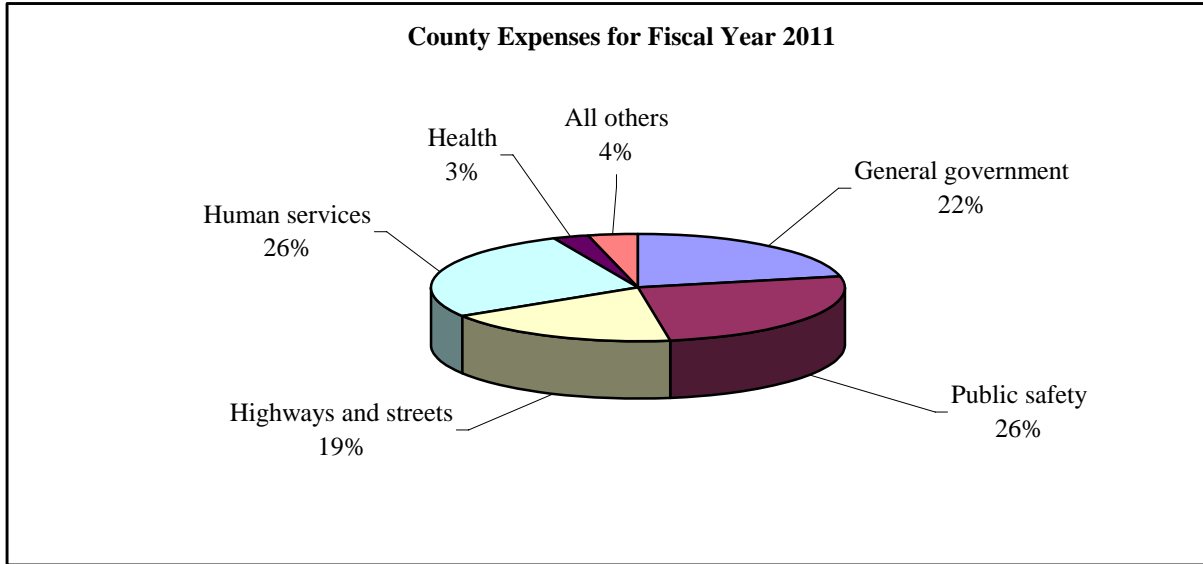


Table 3 presents the cost of each of Mille Lacs County's five largest program functions as well as each function's net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden placed on Mille Lacs County's taxpayers by each of these functions.

**Table 3
Governmental Activities**

	2011	
	Total Cost of Services	Net Cost of Services
Program expenses		
General government	\$ 5,973,568	\$ 5,010,973
Public safety	7,065,881	5,465,095
Highways and streets	5,129,015	345,192
Human services	7,484,986	2,626,749
Health	706,830	331,367
All others	1,088,991	811,899
Total Program Expenses	<u>\$ 27,449,271</u>	<u>\$ 14,591,275</u>



THE COUNTY’S FUNDS

As Mille Lacs County completed the year, its governmental funds, as presented in the balance sheet, reported a combined fund balance of \$22,687,018.

General Fund Budgetary Highlights

The Mille Lacs County Board of Commissioners, over the course of a budget year, may amend/revise the County’s General Fund budget.

Budget amendments/revisions fall into one of three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts.

In 2011, the General Fund actual revenues were below the expected revenues by \$96,494. The actual expenditures were \$874,198 less than budgeted expenditures; the largest portion of this unexpended amount was related to the Historic Courthouse remodel project. Funds were budgeted for the project, but due to construction time frames, the funds for professional services, furnishings, and completion of the project were not all needed until 2012.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, Mille Lacs County had \$66,064,464 invested in a broad range of capital assets, net of depreciation. This investment in capital assets includes land, land improvements, buildings, highways and streets, equipment, and software (see Table 4 below).

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

	2011	2010
Land	\$ 2,192,914	\$ 2,075,754
Construction in progress	3,005,006	347,692
Land improvements	562,187	605,511
Buildings	18,167,927	17,803,447
Machinery and equipment	1,923,363	1,738,683
Infrastructure	40,006,238	40,900,696
Software	206,829	181,488
Total	<u>\$ 66,064,464</u>	<u>\$ 63,653,271</u>

Debt Administration

At December 31, 2011, Mille Lacs County had \$12,820,000 in bonds and notes outstanding, compared with \$13,475,000 as of December 31, 2010, a decrease of 4.86 percent, as shown in Table 5.

Table 5
Outstanding Debt at Year-End

Bonds and Notes Payable	Governmental Activities		Percent (%) Change
	2011	2010	
2005 G.O. Law Enforcement Center Refunding Bonds	\$ 2,535,000	\$ 2,800,000	(9.46)
2007 HRA Lease Revenue Refunding Bonds	915,000	1,010,000	(9.41)
2008 G.O. Capital Improvement Bonds	7,550,000	7,845,000	(3.76)
2010 G.O. Capital Improvement Bonds	900,000	900,000	-
2010 Taxable Capital Improvement Bonds - Recovery Zone Economic Development Bonds	920,000	920,000	-
Total	<u>\$ 12,820,000</u>	<u>\$ 13,475,000</u>	(4.86)

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2011 budget and tax rates.

- Major revenue sources for the County are state-paid aids, credits, and grants. The State of Minnesota has indicated that County Program Aid and various grant programs will be cut for 2011 and 2012. The County has reduced expenditures for 2011 and 2012 to reflect these estimated cuts.
- Mille Lacs County's annual unemployment rate for 2011 was 12 percent. This is significantly above the state-wide and national rates.

CONSTRUCTION/BONDING PLANS

- The Board authorized remodeling of the Courthouse Square Building in 2010 to accommodate the newly integrated Community and Veterans Services Department. The project was completed in 2011.
- The Board authorized the remodel of the Historic Courthouse in 2011. This remodel includes upgrades to the plumbing, heating, and electrical systems, as well as structural changes to accommodate office relocations and upgrading. This update will be funded through capital funds and the issuance of bonds, and is scheduled for completion in 2012.
- As part of the American Recovery and Reinvestment Act of 2009 (ARRA), Mille Lacs County issued \$920,000 of Recovery Zone Economic Development Bonds (RZEDBs), for which the County will receive a payment from the federal government equal to 45 percent of the amount of interest payable on each interest payment date. The Series 2010B bonds are direct pay tax credit RZEDBs. The County has complied with all requirements of ARRA to be eligible for the RZEDB interest credit. The Series 2010B bonds were issued as taxable obligations which the County will elect to irrevocably designate as qualified RZEDBs. The entire County has been designated as a recovery zone pursuant to a resolution adopted by the Board of County Commissioners on July 20, 2010.
- The County also issued General Obligation Capital Improvement Plan Bonds, Series 2010A, in the amount of \$900,000. Both the Series 2010A and 2010B bonds were issued for the Historic Courthouse remodel project. Funds were expended from the bonds for the Historic Courthouse project in 2011.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

Mille Lacs County's financial report provides citizens, taxpayers, customers, investors, and creditors with a general overview of Mille Lacs County's finances and shows the County's accountability for the money it receives and spends. If you have questions about this report, or need additional financial information, contact Roxy Traxler, Mille Lacs County Administrator, (320-983-8218), Mille Lacs County Courthouse, 635 - 2nd Street S.E., Milaca, Minnesota 56353.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011**

Assets

Cash and pooled investments	\$	23,341,923
Petty cash and change funds		850
Departmental cash		17,578
Taxes receivable		
Prior		1,102,041
Special assessments receivable		
Prior		15,560
Accounts receivable		77,570
Accrued interest receivable		31,227
Due from other governments		1,680,105
Inventories		193,364
Advances to other governments		47,171
Deferred charges		243,074
Capital assets		
Non-depreciable		5,197,920
Depreciable - net of accumulated depreciation		60,866,544
Total Assets	\$	92,814,927

Liabilities

Accounts payable	\$	651,568
Salaries payable		290,774
Contracts payable		608,731
Due to other governments		197,301
Accrued interest payable		206,724
Unearned revenue		104,476
Long-term liabilities		
Due within one year		905,929
Due in more than one year		14,108,303
Total Liabilities	\$	17,073,806

Net Assets

Invested in capital assets - net of related debt	\$	54,092,978
Restricted for		
Debt service		2,703,822
General government		225,001
Public safety		813,607
Highways and streets		1,543,254
Conservation of natural resources		35,611
Unrestricted		16,326,848
Total Net Assets	\$	75,741,121

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
		Fees, Charges, Fines, and Other	Operating Grants and Contributions		
<u>Functions/Programs</u>					
Governmental activities					
General government	\$ 5,973,568	\$ 774,946	\$ 187,649	\$ -	\$ (5,010,973)
Public safety	7,065,881	861,657	739,129	-	(5,465,095)
Highways and streets	5,129,015	89,118	4,056,043	638,662	(345,192)
Sanitation	80,977	108,821	41,836	-	69,680
Human services	7,484,986	909,855	3,948,382	-	(2,626,749)
Health	706,830	101,084	274,379	-	(331,367)
Culture and recreation	313,129	-	45,752	-	(267,377)
Conservation of natural resources	169,906	9,412	59,652	-	(100,842)
Economic development	10,850	-	-	-	(10,850)
Interest expense on long-term debt	514,129	-	11,619	-	(502,510)
	\$ 27,449,271	\$ 2,854,893	\$ 9,364,441	\$ 638,662	\$ (14,591,275)
Total Governmental Activities					
General Revenues					
Property taxes					\$ 13,838,568
Gravel tax					29,018
Mortgage registry and deed tax					10,221
Payments in lieu of tax					213,889
Grants and contributions not restricted to specific programs					2,229,389
Unrestricted investment earnings					69,666
Miscellaneous					293,519
Gain on sale of capital assets					4,343
					\$ 16,688,613
					\$ 2,097,338
					73,643,783
					\$ 75,741,121

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 9,936,512	\$ 2,962,278
Petty cash and change funds	800	-
Departmental cash	17,578	-
Taxes receivable		
Prior	702,648	81,117
Special assessments		
Prior	15,560	-
Accounts receivable	17,637	-
Accrued interest receivable	31,227	-
Due from other funds	14,046	-
Due from other governments	347,183	836,061
Inventories	-	193,364
Advances to other funds	48,604	-
Advances to other governments	-	-
	\$ 11,131,795	\$ 4,072,820
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 219,754	\$ 34,333
Salaries payable	203,223	27,158
Contracts payable	19,905	44,386
Due to other funds	-	1,182
Due to other governments	73,729	657
Deferred revenue - unavailable	774,915	896,995
Deferred revenue - unearned	104,476	-
Advances from other funds	-	-
	\$ 1,396,002	\$ 1,004,711

EXHIBIT 3

<u>Family Services</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Ditch</u>	<u>Total</u>
\$ 4,180,875	\$ 2,688,270	\$ 3,518,691	\$ 28,089	\$ 23,314,715
50	-	-	-	850
-	-	-	-	17,578
203,514	87,038	27,724	-	1,102,041
-	-	-	-	15,560
59,933	-	-	-	77,570
-	-	-	-	31,227
-	-	-	-	14,046
496,861	-	-	-	1,680,105
-	-	-	-	193,364
-	-	-	-	48,604
47,171	-	-	-	47,171
<u>\$ 4,988,404</u>	<u>\$ 2,775,308</u>	<u>\$ 3,546,415</u>	<u>\$ 28,089</u>	<u>\$ 26,542,831</u>
\$ 323,014	\$ -	\$ 74,467	\$ -	\$ 651,568
60,393	-	-	-	290,774
-	-	544,440	-	608,731
12,864	-	-	-	14,046
122,915	-	-	-	197,301
173,142	71,486	23,775	-	1,940,313
-	-	-	-	104,476
-	-	-	48,604	48,604
<u>\$ 692,328</u>	<u>\$ 71,486</u>	<u>\$ 642,682</u>	<u>\$ 48,604</u>	<u>\$ 3,855,813</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
(Continued)		
Fund Balances		
Nonspendable		
Inventories	\$ -	\$ 193,364
Advances to other funds	48,604	-
Advances to other governments	-	-
Restricted for		
Debt service	-	-
Law library	18,859	-
Recorder's equipment purchases	154,734	-
Permit to carry	70,198	-
Enhanced 911	216,985	-
Highway construction projects	-	664,858
Highway maintenance	-	49,114
Gravel pit restoration	16,088	-
DARE	52,254	-
Drug and alcohol contingency	24,428	-
DWI assessments	39,965	-
DWI forfeiture	44,855	-
Drug forfeiture	26,327	-
Fleeing an officer	1,071	-
Prisoner account	328,112	-
Attorney - forfeited property	46,362	-
Donations - general government	5,046	-
Donations - public safety	9,412	-
Ditch maintenance and repairs	-	-
Committed to		
Gravel pit restoration	-	100,365
Assigned to		
General government	436,160	-
Highways and streets	-	2,060,408
Human services	-	-
Capital projects	-	-
Unassigned	8,196,333	-
Total Fund Balances	\$ 9,735,793	\$ 3,068,109
Total Liabilities and Fund Balances	\$ 11,131,795	\$ 4,072,820

EXHIBIT 3
(Continued)

<u>Family Services</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Ditch</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 193,364
-	-	-	-	48,604
47,171	-	-	-	47,171
-	2,703,822	-	-	2,703,822
-	-	-	-	18,859
-	-	-	-	154,734
-	-	-	-	70,198
-	-	-	-	216,985
-	-	-	-	664,858
-	-	-	-	49,114
-	-	-	-	16,088
-	-	-	-	52,254
-	-	-	-	24,428
-	-	-	-	39,965
-	-	-	-	44,855
-	-	-	-	26,327
-	-	-	-	1,071
-	-	-	-	328,112
-	-	-	-	46,362
-	-	-	-	5,046
-	-	-	-	9,412
-	-	-	19,523	19,523
-	-	-	-	100,365
-	-	-	-	436,160
-	-	-	-	2,060,408
4,248,905	-	-	-	4,248,905
-	-	2,903,733	-	2,903,733
-	-	-	(40,038)	8,156,295
\$ 4,296,076	\$ 2,703,822	\$ 2,903,733	\$ (20,515)	\$ 22,687,018
\$ 4,988,404	\$ 2,775,308	\$ 3,546,415	\$ 28,089	\$ 26,542,831

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

Fund balances - total governmental funds (Exhibit 3)		\$	22,687,018
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.			66,064,464
Deferred charges are not available to pay current expenditures and, therefore, are not reported in the governmental funds.			243,074
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.			1,940,313
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	\$	(11,905,000)	
Lease revenue bonds		(915,000)	
Unamortized premium on bonds		(81,905)	
Unamortized discount on bonds		22,460	
Compensated absences		(1,548,478)	
OPEB liability		<u>(586,309)</u>	(15,014,232)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the governmental funds.			(206,724)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.			<u>27,208</u>
Net Assets of Governmental Activities (Exhibit 1)			<u>\$ 75,741,121</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Road and Bridge
Revenues		
Taxes	\$ 9,112,335	\$ 1,051,125
Special assessments	35,031	-
Licenses and permits	209,154	8,597
Intergovernmental	2,821,622	5,112,968
Charges for services	1,137,644	42,789
Fines and forfeits	89,759	-
Gifts and contributions	32,558	-
Investment earnings	84,661	-
Miscellaneous	668,758	37,732
	\$ 14,191,522	\$ 6,253,211
Expenditures		
Current		
General government	\$ 5,276,118	\$ -
Public safety	6,961,381	-
Highways and streets	-	4,932,336
Sanitation	80,977	-
Human services	-	-
Health	583,484	-
Culture and recreation	52,418	-
Conservation of natural resources	153,614	-
Economic development	10,850	-
Intergovernmental		
Highways and streets	-	199,869
Culture and recreation	260,711	-
Capital outlay		
General government	-	-
Highways and streets	-	-
Debt service		
Principal	-	-
Interest	-	-
	\$ 13,379,553	\$ 5,132,205

EXHIBIT 5

<u>Family Services</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 2,260,928	\$ 1,212,449	\$ 282,284	\$ -	\$ 13,919,121
-	-	-	9,412	44,443
-	-	-	-	217,751
4,290,999	94,539	339,267	74,083	12,733,478
613,728	-	-	20,233	1,814,394
-	-	-	-	89,759
779	-	-	-	33,337
-	-	-	-	84,661
296,127	-	8,441	1,961	1,013,019
\$ 7,462,561	\$ 1,306,988	\$ 629,992	\$ 105,689	\$ 29,949,963
\$ -	\$ -	\$ -	\$ -	\$ 5,276,118
-	-	-	-	6,961,381
-	-	-	-	4,932,336
-	-	-	-	80,977
7,551,657	-	-	-	7,551,657
-	-	-	116,452	699,936
-	-	-	-	52,418
-	-	-	14,966	168,580
-	-	-	-	10,850
-	-	-	-	199,869
-	-	-	-	260,711
-	-	2,856,857	-	2,856,857
-	-	158,459	-	158,459
-	655,000	-	-	655,000
-	493,118	-	-	493,118
\$ 7,551,657	\$ 1,148,118	\$ 3,015,316	\$ 131,418	\$ 30,358,267

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>General</u>	<u>Road and Bridge</u>
Excess of Revenues Over (Under) Expenditures	\$ 811,969	\$ 1,121,006
Other Financing Sources (Uses)		
Transfers in	\$ 508,674	\$ -
Transfers out	(532,810)	(321,107)
Proceeds from sale of capital assets	4,343	-
Total Other Financing Sources (Uses)	\$ (19,793)	\$ (321,107)
Net Change in Fund Balance	\$ 792,176	\$ 799,899
Fund Balance - January 1	8,943,617	2,349,668
Increase (decrease) in inventories	-	(81,458)
Fund Balance - December 31	\$ 9,735,793	\$ 3,068,109

EXHIBIT 5
(Continued)

<u>Family Services</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>\$ (89,096)</u>	<u>\$ 158,870</u>	<u>\$ (2,385,324)</u>	<u>\$ (25,729)</u>	<u>\$ (408,304)</u>
\$ 80,881	\$ -	\$ 1,644,181	\$ -	\$ 2,233,736
(1,293,747)	-	-	(86,072)	(2,233,736)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,343</u>
<u>\$ (1,212,866)</u>	<u>\$ -</u>	<u>\$ 1,644,181</u>	<u>\$ (86,072)</u>	<u>\$ 4,343</u>
\$ (1,301,962)	\$ 158,870	\$ (741,143)	\$ (111,801)	\$ (403,961)
5,598,038	2,544,952	3,644,876	91,286	23,172,437
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(81,458)</u>
<u>\$ 4,296,076</u>	<u>\$ 2,703,822</u>	<u>\$ 2,903,733</u>	<u>\$ (20,515)</u>	<u>\$ 22,687,018</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (403,961)

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

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

Deferred revenue - December 31	\$ 1,940,313	
Deferred revenue - January 1	<u>(2,278,010)</u>	(337,697)

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

Expenditures for general capital assets and infrastructure	\$ 4,717,831	
Net book value of assets sold	(16,523)	
Current year depreciation	<u>(2,290,115)</u>	2,411,193

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

Principal repayments		
General obligation bonds	\$ 560,000	
Lease revenue bonds	<u>95,000</u>	655,000

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

Change in accrued interest payable	\$ (6,715)	
Change in compensated absences	38,499	
Change in OPEB liability	(149,173)	
Change in inventories	(81,458)	
Current year amortization of issuance costs, discounts, and premiums	<u>(14,296)</u>	(213,143)

An internal service fund is used by management to charge the costs of insurance to individual funds. The increase in net assets of the internal service fund is reported in the government-wide statement of activities.		<u>(14,054)</u>
--	--	-----------------

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 2,097,338

SELF-INSURANCE INTERNAL SERVICE FUND

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MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT 7

STATEMENT OF FUND NET ASSETS
SELF-INSURANCE INTERNAL SERVICE FUND
DECEMBER 31, 2011

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and pooled investments	\$ <u>27,208</u>
<u>Net Assets</u>	
Unrestricted	\$ <u>27,208</u>

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
SELF-INSURANCE INTERNAL SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Governmental Activities</u>
Operating Revenues	
Insurance fees	\$ 101,126
Operating Expenses	
Insurance	<u>115,180</u>
Operating Income (Loss)	\$ (14,054)
Net Assets - January 1	<u>41,262</u>
Net Assets - December 31	<u><u>\$ 27,208</u></u>

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT 9

STATEMENT OF CASH FLOWS
SELF-INSURANCE INTERNAL SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011
Increase (Decrease) in Cash and Cash Equivalents

	<u>Governmental Activities</u>
Cash Flows From Operating Activities	
Receipts from customers and users	\$ 101,126
Payments to suppliers	<u>(115,180)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (14,054)
Cash and Cash Equivalents at January 1	<u>41,262</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 27,208</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	<u><u>\$ (14,054)</u></u>

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FIDUCIARY FUNDS

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2011**

	Private-Purpose Trust	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 129,266	\$ 688,550
Accrued interest receivable	35	-
	\$ 129,301	\$ 688,550
Total Assets	\$ 129,301	\$ 688,550
<u>Liabilities</u>		
Due to other governments	-	\$ 688,550
	-	\$ 688,550
<u>Net Assets</u>		
Restricted for other purposes	\$ 129,301	
	\$ 129,301	

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT 11

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Additions</u>	
Investment income	\$ 307
<u>Deductions</u>	
Payments in accordance with trust agreements	<u>498</u>
Change in net assets	\$ (191)
Net Assets - January 1	<u>129,492</u>
Net Assets - December 31	<u><u>\$ 129,301</u></u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011**

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, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Mille Lacs County was established May 23, 1857, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Administrator, who is an appointed officer, serves as the Clerk of the Board of Commissioners but does not vote in its decisions.

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

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Blended Component Unit

The Mille Lacs County Housing and Redevelopment Authority (HRA), a blended component unit of Mille Lacs County, is governed by a five-member Board consisting of the Mille Lacs County Board of Commissioners and has the power to levy taxes, issue bonds, and enter into contracts. The HRA was established to assist with the implementation of a redevelopment plan to promote economic development within Mille Lacs County. Although it is legally separate from the County, the activity of the HRA is included in the Mille Lacs County reporting entity as the Housing and Redevelopment Authority Special Revenue Fund because the HRA's governing body is the same as the governing body of Mille Lacs County. Separate financial statements are not available for the Mille Lacs County HRA. The HRA Fund was closed into the Mille Lacs County General Fund in 2011.

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds and blended component unit. 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 internal service funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the County's internal service fund include insurance fees, and the principal operating expenses include insurance payments. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

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

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

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

Additionally, the County reports the following fund types:

The Self-Insurance Internal Service Fund accounts for the County's self-insurance activities.

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

The Agency Fund is custodial in nature and does not present results of operations or have a measurement focus. This fund accounts for assets that the County holds for others in an agent capacity.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2011, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2011 were \$84,661.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

Cash and cash equivalents are identified only for the purpose of the statement of cash flows for the proprietary fund. Pooled investments, which have the characteristics of demand deposits, are considered to be cash and cash equivalents on the statement of cash flows.

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

2. Receivables and Payables

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

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

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Reported inventories are equally offset by nonspendable fund balance to indicate that they do not constitute available spendable resources.

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

4. Capital Assets

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

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

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

<u>Assets</u>	<u>Years</u>
Land improvements	20 - 35
Buildings	25 - 40
Machinery and equipment	3 - 15
Infrastructure	15 - 70
Software	5

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Compensated Absences

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

6. Deferred Revenue

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

7. Long-Term Obligations

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

Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Classification of Net Assets

Net assets in the government-wide financial statement are classified in the following categories:

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

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

Unrestricted net assets - the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

9. Classification of Fund Balances

Beginning in 2011, Mille Lacs County implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

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

Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

9. Classification of Fund Balances (Continued)

Restricted - amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of actions (ordinance or resolution) it employed to previously commit these amounts.

Assigned - amounts the County intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or their assignee.

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

The County has adopted a minimum fund balance policy for the General Fund, the Road and Bridge Special Revenue Fund, and the Family Services Special Revenue Fund. All three funds are heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum unrestricted (committed, assigned, and unassigned) fund balance in the General Fund, and the Road and Bridge and Family Services Special Revenue Funds to meet operating needs until those tax revenues are distributed. The County Board has set the minimum year-end unrestricted fund balance amount for the General Fund and the Family Services Special Revenue Fund at 45 to

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

9. Classification of Fund Balances (Continued)

50 percent of the following year's operating budget. The minimum unrestricted fund balance policy for the Road and Bridge Special Revenue Fund is 30 to 35 percent of the following year's operating budget.

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

10. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

Three of five drainage systems of the Ditch Special Revenue Fund have incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund balance for the year ended December 31, 2011:

Account balances	\$ 19,523
Account deficits	<u>(40,038)</u>
Total Fund Balance	<u>\$ (20,515)</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

B. Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget at the function level for the year ended December 31, 2011:

	Expenditures	Final Budget	Excess
General Fund			
Current			
Public safety	\$ 6,961,381	\$ 6,758,717	\$ 202,664
Sanitation	80,977	74,350	6,627
Culture and recreation	52,418	6,667	45,751
Economic development	10,850	10,350	500
Special Revenue Funds			
Family Services			
Current			
Human services	7,551,657	7,364,635	187,022

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 23,341,923
Petty cash and change funds	850
Departmental cash	17,578
Statement of fiduciary net assets	
Cash and pooled investments	
Private-Purpose Trust Fund	129,266
Agency Fund	688,550
Total Cash and Investments	\$ 24,178,167

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk other than complying with the requirements of Minnesota statutes. As of December 31, 2011, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (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 does not have a policy regarding interest rate risk.

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.

**MILLE LACS COUNTY
MILACA, 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. The County does not have a policy on custodial credit risk. At December 31, 2011, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

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

The following table presents the County's deposit and investment balances at December 31, 2011, and information relating to potential investment risks:

<u>Investment Type</u>	<u>Credit Risk</u>		<u>Concentration Risk Over</u>	<u>Interest Rate Risk</u>	<u>Carrying (Fair) Value</u>
	<u>Credit Rating</u>	<u>Rating Agency</u>	<u>5 Percent of Portfolio</u>	<u>Maturity Date</u>	
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	56.8%	N/A	\$ 10,744,006
Negotiable certificates of deposit	N/A	N/A	43.2	Various	8,176,000
Total investments					\$ 18,920,006
Deposits					5,239,733
Petty cash and change funds					850
Departmental cash					17,578
Total Cash and Investments					\$ 24,178,167

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

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

The County had no receivables scheduled to be collected beyond one year.

3. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 2,075,754	\$ 117,160	\$ -	\$ 2,192,914
Construction in progress	347,692	3,872,350	1,215,036	3,005,006
Total capital assets not depreciated	\$ 2,423,446	\$ 3,989,510	\$ 1,215,036	\$ 5,197,920
Capital assets depreciated				
Land improvements	\$ 968,190	\$ -	\$ -	\$ 968,190
Buildings	22,414,256	1,002,187	30,242	23,386,201
Machinery and equipment	6,890,610	660,736	462,781	7,088,565
Infrastructure	55,912,803	212,849	-	56,125,652
Software	207,184	67,585	-	274,769
Total capital assets depreciated	\$ 86,393,043	\$ 1,943,357	\$ 493,023	\$ 87,843,377
Less: accumulated depreciation for				
Land improvements	\$ 362,679	\$ 43,324	\$ -	\$ 406,003
Buildings	4,610,809	607,465	-	5,218,274
Machinery and equipment	5,151,927	474,565	461,290	5,165,202
Infrastructure	15,012,107	1,122,517	15,210	16,119,414
Software	25,696	42,244	-	67,940
Total accumulated depreciation	\$ 25,163,218	\$ 2,290,115	\$ 476,500	\$ 26,976,833
Total capital assets depreciated, net	\$ 61,229,825	\$ (346,758)	\$ 16,523	\$ 60,866,544
Governmental Activities Capital Assets, Net	\$ 63,653,271	\$ 3,642,752	\$ 1,231,559	\$ 66,064,464

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	788,169
Public safety		102,749
Highways and streets, including depreciation of infrastructure assets		1,377,978
Human services		<u>21,219</u>
Total Depreciation Expense - Governmental Activities	\$	<u>2,290,115</u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2011, was as follows:

1. Due To/From Other Funds

	Receivable	Payable
Major governmental funds		
General Fund	\$ 14,046	\$ -
Road and Bridge Special Revenue Fund	-	1,182
Family Services Special Revenue Fund	<u>-</u>	<u>12,864</u>
Total Due To/From Other Funds	<u>\$ 14,046</u>	<u>\$ 14,046</u>

The interfund balances above represent fourth quarter 2011 phone charges for the Road and Bridge Special Revenue Fund, and long-distance phone charges and Child Support IV-D billings for the Family Services Special Revenue Fund.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

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

2. Advances From/To Other Funds

The General Fund advanced the Ditch Special Revenue Fund \$48,604 for cash flow purposes.

3. Transfers

Interfund transfers at December 31, 2011, were as follows:

	Transfers In	Description
Transfers to General Fund from		
Family Services Fund	\$ 498,437	Transfer excess fund balance
Housing and Redevelopment Authority (HRA) Fund	10,237	HRA Fund closed
Total transfers to General Fund	\$ 508,674	
Transfers to Family Services Fund from		
General Fund	\$ 5,046	Transfer Veterans Services operations
Community Health Services Fund	75,835	Community Health Services Fund closed
Total transfers to Family Service Fund	\$ 80,881	
Transfers to Capital Projects Fund from		
General Fund	\$ 280,982	General equipment
General Fund	246,782	County roads
Road and Bridge Fund	12,857	General equipment
Road and Bridge Fund	308,250	County roads
Family Services Fund	220,310	General equipment
Family Services Fund	575,000	Courthouse square project
Total transfers to Capital Projects Fund	\$ 1,644,181	
Total Interfund Transfers	\$ 2,233,736	

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

	Governmental Activities	Fiduciary Funds
Accounts	\$ 651,568	\$ -
Salaries	290,774	-
Contracts	608,731	-
Due to other governments	197,301	688,550
Total Payables	\$ 1,748,374	\$ 688,550

2. Deferred Revenue

Deferred revenue consists of taxes and special assessments receivable, state and federal grants that are not collected soon enough after year-end to pay liabilities of the current period, and state and federal grants received but not yet earned. Deferred revenue at December 31, 2011, is summarized below by fund:

	Taxes	Special Assessments	Grants and Highway Allotments	Other	Total
Major governmental funds					
General	\$ 586,237	\$ 13,518	\$ 104,476	\$ 175,160	\$ 879,391
Special Revenue					
Road and Bridge	67,713	-	829,282	-	896,995
Family Services	173,142	-	-	-	173,142
Debt Service	71,486	-	-	-	71,486
Capital Projects	23,775	-	-	-	23,775
Total	\$ 922,353	\$ 13,518	\$ 933,758	\$ 175,160	\$ 2,044,789
Deferred revenue					
Unavailable	\$ 922,353	\$ 13,518	\$ 829,282	\$ 175,160	\$ 1,940,313
Unearned	-	-	104,476	-	104,476
Total	\$ 922,353	\$ 13,518	\$ 933,758	\$ 175,160	\$ 2,044,789

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
2005 G.O. Law Enforcement Center Refunding Bonds	02/01/2019	\$245,000 - \$365,000	2.35 - 4.00	\$ 3,555,000	\$ 2,535,000
2007 HRA Lease Revenue Refunding Bonds	02/01/2019	\$85,000 - \$130,000	4.00 - 4.40	1,280,000	915,000
2008 G.O. Capital Improvement Bonds	02/01/2029	\$140,000 - \$575,000	4.10 - 4.40	7,985,000	7,550,000
2010A G.O. Capital Improvement Bonds	02/01/2019	\$100,000 - \$120,000	0.70 - 2.40	900,000	900,000
2010B Taxable Capital Improvement Bonds - Recovery Zone Economic Development Bonds	02/01/2026	\$125,000 - \$140,000	3.30 - 4.45	920,000	920,000
Total				<u>\$ 14,640,000</u>	<u>\$ 12,820,000</u>

4. Debt Service Requirements

Debt service requirements at December 31, 2011, were as follows:

Year Ending December 31	General Obligation Bonds		Lease Revenue Bonds	
	Principal	Interest	Principal	Interest
2012	\$ 680,000	\$ 409,268	\$ 95,000	\$ 37,346
2013	705,000	386,804	105,000	33,096
2014	725,000	363,072	110,000	28,528
2015	750,000	337,945	110,000	23,852
2016	780,000	311,137	115,000	19,071
2017 - 2021	3,335,000	1,126,667	380,000	25,442
2022 - 2026	2,355,000	612,297	-	-
2027 - 2029	1,655,000	109,987	-	-
Total	<u>\$ 10,985,000</u>	<u>\$ 3,657,177</u>	<u>\$ 915,000</u>	<u>\$ 167,335</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

Year Ending December 31	Taxable General Obligation Bonds		Total	
	Principal	Interest	Principal	Interest
2012	\$ -	\$ 36,595	\$ 775,000	\$ 483,209
2013	-	36,595	810,000	456,495
2014	-	36,595	835,000	428,195
2015	-	36,595	860,000	398,392
2016	-	36,595	895,000	366,803
2017 - 2021	250,000	174,507	3,965,000	1,326,616
2022 - 2026	670,000	72,693	3,025,000	684,990
2027 - 2029	-	-	1,655,000	109,987
Total	\$ 920,000	\$ 430,175	\$ 12,820,000	\$ 4,254,687

As part of the American Recovery and Reinvestment Act of 2009 (ARRA), Mille Lacs County issued \$920,000 of Recovery Zone Economic Development Bonds (RZEDBs), which were issued for the Historical Courthouse Square remodel project. The Series 2010B bonds are direct pay tax credit RZEDBs, in which the County will receive a payment from the federal government equal to 45 percent of the amount of interest payable on each interest payment date. The County has complied with all requirements of ARRA to be eligible for the RZEDB interest credit. The Series 2010B bonds were issued as taxable obligations, which the County will elect to irrevocably designate as qualified RZEDBs. The entire County has been designated as a recovery zone pursuant to a resolution adopted by the Board of Commissioners of the County on July 20, 2010.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

Taking into consideration the above RZEDB interest credit, as of December 31, 2011, the County's net annual debt service requirements to amortize all taxable general obligation bonds outstanding, including interest of \$236,596 on the governmental activities debt, is as follows:

Year Ending December 31	Principal	Interest	Federal Subsidy	Net Interest	Total Payment
2012	\$ -	\$ 36,595	\$ (16,468)	\$ 20,127	\$ 20,127
2013	-	36,595	(16,468)	20,127	20,127
2014	-	36,595	(16,467)	20,128	20,128
2015	-	36,595	(16,468)	20,127	20,127
2016	-	36,595	(16,468)	20,127	20,127
2017 - 2021	250,000	174,507	(78,528)	95,979	345,979
2022 - 2026	670,000	72,693	(32,712)	39,981	709,981
Total	<u>\$ 920,000</u>	<u>\$ 430,175</u>	<u>\$ (193,579)</u>	<u>\$ 236,596</u>	<u>\$ 1,156,596</u>

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 11,545,000	\$ -	\$ 560,000	\$ 10,985,000	\$ 680,000
Lease revenue bonds	1,010,000	-	95,000	915,000	95,000
Taxable general obligation bonds	920,000	-	-	920,000	-
Add: premium on bonds	86,456	-	4,551	81,905	-
Less: discounts on bonds	(25,268)	-	(2,808)	(22,460)	-
Compensated absences	1,586,977	-	38,499	1,548,478	130,929
OPEB liability	437,136	149,173	-	586,309	-
Long-Term Liabilities	<u>\$ 15,560,301</u>	<u>\$ 149,173</u>	<u>\$ 695,242</u>	<u>\$ 15,014,232</u>	<u>\$ 905,929</u>

D. Contract Commitments

The County has entered into contract commitments of \$3,412 for County-wide energy efficiency and \$125,386 for the Courthouse Square remodel project. These projects have not been completed as of December 31, 2011.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

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

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

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

The County is required to contribute the following percentages of annual covered payroll in 2011:

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

The County's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
General Employees Retirement Fund	\$ 544,107	\$ 532,097	\$ 501,239
Public Employees Police and Fire Fund	200,625	189,682	180,744
Public Employees Correctional Fund	168,262	164,413	157,080

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans (Continued)

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.0 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share.

Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2011, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 1,868	\$ 1,868
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

Mille Lacs County provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical and dental insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Mille Lacs County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the healthcare plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For fiscal year 2011, the County contributed \$73,671 to the plan; there were 243 participants in the plan.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that is paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	\$ 229,837
Interest on net OPEB obligation	19,671
Adjustment to ARC	<u>(26,664)</u>
Annual OPEB cost (expense)	\$ 222,844
Contributions made - indirect implicit subsidy	<u>(73,671)</u>
Increase in net OPEB obligation	\$ 149,173
Net OPEB obligation - Beginning of Year	<u>437,136</u>
Net OPEB obligation - End of Year	<u>\$ 586,309</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the three preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2008	\$ 175,476	\$ 32,772	18.7%	\$ 142,704
December 31, 2009	175,476	50,149	28.6	268,031
December 31, 2010	225,661	56,556	25.1	437,136
December 31, 2011	222,844	73,671	33.1	586,309

Funding Status and Funding Progress

As of January 1, 2010, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial liability for benefits was \$1,469,265, and the actuarial valuation of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,469,265. The covered payroll (annual payroll of active employees covered by the plan) was \$11,088,106 and the ratio of the UAAL to the covered payroll was 13.3 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of the benefit cost between the employer and plan members to that point.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2010, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of administrative expenses), which is Mille Lacs County's implicit rate of return on the General Fund. An annual healthcare cost trend rate of 8.5 percent initially reduced by the decrements to an ultimate rate of 5.0 percent after seven years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was set equal to the market value of assets. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2011, was 26 years.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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 \$450,000 per claim in 2011 and \$460,000 per claim in 2012. 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.

On January 1, 2010, the County contracted with Delta Dental of Minnesota to administer the County's dental benefit plan for its employees as provided by the plan accepted from Delta Dental. The County sets annual premiums for the plan based on the recommendation of the plan administration and accumulates premiums collected from all participating funds in the Internal Service Fund.

At the beginning of each month, the County is billed by Delta Dental of Minnesota for the previous month's claims processed and the per employee administrative fee. The payment is made to Delta Dental from the premiums accumulated in the Internal Service Fund.

B. Contingent Liabilities

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities (Continued)

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

C. Joint Ventures

East Central Solid Waste Commission

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

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

Each county's share of the Commission's assets, liabilities, and equities cannot be accurately determined since it will fluctuate with census data rather than ownership interest. Following is a summary of the financial information as of and for the year ended December 31, 2010 (most recent figures available):

Total Assets	\$ 13,756,816
Total Liabilities	<u>(4,877,321)</u>
Total Net Assets	<u>\$ 8,879,495</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

East Central Solid Waste Commission (Continued)

Operating and nonoperating revenues	\$ 5,103,282
Operating and nonoperating expenses	<u>(5,712,556)</u>
Change in Net Assets	<u>\$ (609,274)</u>

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

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

East Central Regional Library

The East Central Regional Library was established by a joint powers agreement among Aitkin, Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to provide an efficient and improved regional public library service. The Library Board comprises 18 members--one County Board member and two appointees from each member county. Mille Lacs County's contribution for 2011 was \$260,711.

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

East Central Regional Library
244 South Birch
Cambridge, Minnesota 55008

Snake River Watershed Management Board

The Snake River Watershed Management Board (SRWMB) was established in April 1993, pursuant to Minn. Stat. § 471.59, as a joint powers entity. Its purpose is to coordinate the member counties' water plans and to develop objectives to promote sound hydrologic management of the water and the related land resources. Members are Aitkin, Kanabec, Mille Lacs, and Pine Counties. Financial responsibility exists

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Snake River Watershed Management Board (Continued)

because, once the SRWMB has established a budget and determined which projects will be undertaken, each member county is required by the agreement to provide appropriate financial support. The SRWMB establishes an annual budget, and participation in the administrative costs is as follows:

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

Complete financial statements of the SRWMB can be obtained from:

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

Central Minnesota Emergency Medical Services Region

The Central Minnesota Emergency Medical Services Region (CMEMSR) was established in 2001 pursuant to Minn. Stat. § 471.59, and is currently operating under a memorandum of understanding between the counties of Benton, Cass, Chisago, Crow Wing, Isanti, Kanabec, Mille Lacs, Morrison, Pine, Sherburne, Stearns, Todd, Wadena, and Wright.

The purpose of the CMEMSR is to improve the planning, coordination, and implementation of emergency medical services within the member counties.

The CMEMSR has established a board which has general supervision over its activities. The Board consists of 14 County Commissioners, one from each of the member counties. Stearns County is the fiscal agent for the CMEMSR and reports the CMEMSR's activities in an agency fund in its financial statements.

Complete financial information can be obtained from Scott Miller, Regional EMS Coordinator, Central Minnesota Emergency Medical Services Region, Stearns County Administration Center, 705 Courthouse Square, St. Cloud, Minnesota 56303.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Central Minnesota Regional Radio Board

The Central Minnesota Regional Radio Board was established by a joint powers agreement among the City of St. Cloud and the Counties of Benton, Big Stone, Douglas, Grant, Kandiyohi, Meeker, Mille Lacs, Morrison, Otter Tail, Pope, Sherburne, Stearns, Stevens, Swift, Todd, Traverse, Wadena, Wilkin, and Wright. The Joint Powers Board is comprised of one City Council member from the City of St. Cloud and one County Commissioner from each member county. The parties entered into the joint powers agreement pursuant to Minn. Stat. §§ 403.39 and 471.59, for the purpose of preparing and administering a plan which provides for the installation, operation, and maintenance of local and regional enhancements to the Statewide Public Safety Radio and Communication System (ARMER) owned and operated by the State of Minnesota.

The City of St. Cloud is the fiscal agent for the Central Minnesota Regional Radio Board. Financial information for the Radio Board can be obtained from:

St. Cloud City Hall
Finance Department
400 Second Street South
St. Cloud, Minnesota 56301

North Central Drug Task Force

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

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

REQUIRED SUPPLEMENTARY INFORMATION

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 9,679,291	\$ 9,089,322	\$ 9,112,335	\$ 23,013
Special assessments	20,000	20,000	35,031	15,031
Licenses and permits	225,491	225,491	209,154	(16,337)
Intergovernmental	2,221,475	2,811,444	2,821,622	10,178
Charges for services	1,608,159	1,608,159	1,137,644	(470,515)
Fines and forfeits	57,800	57,800	89,759	31,959
Gifts and contributions	6,000	6,000	32,558	26,558
Investment earnings	225,500	225,500	84,661	(140,839)
Miscellaneous	244,300	244,300	668,758	424,458
Total Revenues	\$ 14,288,016	\$ 14,288,016	\$ 14,191,522	\$ (96,494)
Expenditures				
Current				
General government				
Commissioners	\$ 180,835	\$ 180,835	\$ 177,253	\$ 3,582
Courts administrator	80,000	80,000	89,448	(9,448)
Law library	37,800	37,800	46,842	(9,042)
County administrator	797,042	797,042	791,517	5,525
Auditor/treasurer	392,259	392,259	383,922	8,337
Auditing	58,000	58,000	53,980	4,020
General administration	804,569	804,569	636,420	168,149
Information services	40,300	40,300	37,701	2,599
Data processing	74,750	74,750	69,576	5,174
Elections	18,250	18,250	13,958	4,292
County attorney	1,211,756	1,211,756	1,226,910	(15,154)
Victim emergency grant	64,635	64,635	59,331	5,304
Assessor	412,083	412,083	333,752	78,331
Recorder's equipment account	125,500	125,500	143,909	(18,409)
Zoning and environmental services	709,994	709,994	701,033	8,961
Building maintenance	428,450	428,450	293,863	134,587
Building additions and improvements	390,000	390,000	111,400	278,600
Veterans services	42,000	42,000	37,675	4,325
Other general government	450,000	450,000	67,628	382,372
Total general government	\$ 6,318,223	\$ 6,318,223	\$ 5,276,118	\$ 1,042,105

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<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	\$ 1,941,306	\$ 1,941,306	\$ 2,064,065	\$ (122,759)
Court security	357,400	357,400	371,231	(13,831)
Boat and water safety	57,348	57,348	60,221	(2,873)
Snowmobile safety enforcement	1,500	1,500	5,622	(4,122)
ATV grant	-	-	3,305	(3,305)
Mobile crime lab	-	-	16,366	(16,366)
DARE program	5,000	5,000	2,554	2,446
Hooked on fishing account	1,500	1,500	2,157	(657)
Chaplaincy	-	-	111	(111)
Deputy reserve account	400	400	1,612	(1,212)
DWI forfeiture	-	-	9,076	(9,076)
Drug forfeiture	-	-	1,240	(1,240)
Fleeing an officer forfeiture	-	-	459	(459)
Records system	-	-	55,392	(55,392)
Permit to carry	5,000	5,000	1,424	3,576
Animal control	-	-	11,922	(11,922)
Coroner	75,977	75,977	75,977	-
County jail	3,125,051	3,125,051	3,070,389	54,662
Prisoner account	145,000	145,000	123,194	21,806
Probation	795,048	795,048	754,996	40,052
Case load reduction account	124,076	124,076	118,806	5,270
911 services and civil defense	101,111	101,111	188,405	(87,294)
E-911	23,000	23,000	22,857	143
Total public safety	\$ 6,758,717	\$ 6,758,717	\$ 6,961,381	\$ (202,664)
Sanitation				
Solid waste	\$ 74,350	\$ 74,350	\$ 80,977	\$ (6,627)
Health				
Public health	\$ 542,599	\$ 542,599	\$ 444,297	\$ 98,302
WIC	117,690	117,690	139,187	(21,497)
Total health	\$ 660,289	\$ 660,289	\$ 583,484	\$ 76,805
Culture and recreation				
Historical society	\$ 6,667	\$ 6,667	\$ 6,668	\$ (1)
Snowmobile trails	-	-	45,750	(45,750)
Total culture and recreation	\$ 6,667	\$ 6,667	\$ 52,418	\$ (45,751)

**MILLE LACS COUNTY
MILACA, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Conservation of natural resources				
County agricultural society	\$ 13,205	\$ 13,205	\$ 13,205	\$ -
County extension service	69,200	69,200	58,459	10,741
Soil and water conservation	77,571	77,571	77,571	-
Other conservation	4,379	4,379	4,379	-
Total conservation of natural resources	\$ 164,355	\$ 164,355	\$ 153,614	\$ 10,741
Economic development				
Community development	\$ 10,350	\$ 10,350	\$ 10,850	\$ (500)
Intergovernmental				
Culture and recreation				
Library	\$ 260,800	\$ 260,800	\$ 260,711	\$ 89
Total Expenditures	\$ 14,253,751	\$ 14,253,751	\$ 13,379,553	\$ 874,198
Excess of Revenues Over (Under) Expenditures	\$ 34,265	\$ 34,265	\$ 811,969	\$ 777,704
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 508,674	\$ 508,674
Transfers out	-	-	(532,810)	(532,810)
Proceeds from sale of capital assets	2,500	2,500	4,343	1,843
Total Other Financing Sources (Uses)	\$ 2,500	\$ 2,500	\$ (19,793)	\$ (22,293)
Net Change in Fund Balance	\$ 36,765	\$ 36,765	\$ 792,176	\$ 755,411
Fund Balance - January 1	8,943,617	8,943,617	8,943,617	-
Fund Balance - December 31	\$ 8,980,382	\$ 8,980,382	\$ 9,735,793	\$ 755,411

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,115,213	\$ 1,046,998	\$ 1,051,125	\$ 4,127
Licenses and permits	2,500	2,500	8,597	6,097
Intergovernmental	4,706,618	4,774,833	5,112,968	338,135
Charges for services	75,500	75,500	42,789	(32,711)
Miscellaneous	6,500	6,500	37,732	31,232
Total Revenues	\$ 5,906,331	\$ 5,906,331	\$ 6,253,211	\$ 346,880
Expenditures				
Current				
Highways and streets				
Administration	\$ 606,356	\$ 606,356	\$ 589,354	\$ 17,002
Maintenance	3,185,030	3,185,030	2,647,679	537,351
Construction	1,471,039	1,271,170	1,079,655	191,515
Equipment maintenance and shop	588,230	588,230	615,648	(27,418)
Total highways and streets	\$ 5,850,655	\$ 5,650,786	\$ 4,932,336	\$ 718,450
Intergovernmental				
Highways and streets	-	199,869	199,869	-
Total Expenditures	\$ 5,850,655	\$ 5,850,655	\$ 5,132,205	\$ 718,450
Excess of Revenues Over (Under) Expenditures	\$ 55,676	\$ 55,676	\$ 1,121,006	\$ 1,065,330
Other Financing Sources (Uses)				
Transfers out	-	-	(321,107)	(321,107)
Net Change in Fund Balance	\$ 55,676	\$ 55,676	\$ 799,899	\$ 744,223
Fund Balance - January 1	2,349,668	2,349,668	2,349,668	-
Increase (decrease) in inventories	-	-	(81,458)	(81,458)
Fund Balance - December 31	\$ 2,405,344	\$ 2,405,344	\$ 3,068,109	\$ 662,765

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,425,369	\$ 2,277,008	\$ 2,260,928	\$ (16,080)
Intergovernmental	3,852,537	4,000,898	4,290,999	290,101
Charges for services	524,156	524,156	613,728	89,572
Gifts and contributions	-	-	779	779
Miscellaneous	291,301	291,301	296,127	4,826
Total Revenues	\$ 7,093,363	\$ 7,093,363	\$ 7,462,561	\$ 369,198
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,875,681	\$ 1,875,681	\$ 1,915,028	\$ (39,347)
Social services	5,488,954	5,488,954	5,636,629	(147,675)
Total Expenditures	\$ 7,364,635	\$ 7,364,635	\$ 7,551,657	\$ (187,022)
Excess of Revenues Over (Under)				
Expenditures	\$ (271,272)	\$ (271,272)	\$ (89,096)	\$ 182,176
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 80,881	\$ 80,881
Transfers out	-	-	(1,293,747)	(1,293,747)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (1,212,866)	\$ (1,212,866)
Net Change in Fund Balance	\$ (271,272)	\$ (271,272)	\$ (1,301,962)	\$ (1,030,690)
Fund Balance - January 1	5,598,038	5,598,038	5,598,038	-
Fund Balance - December 31	\$ 5,326,766	\$ 5,326,766	\$ 4,296,076	\$ (1,030,690)

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	\$ -	\$ 1,080,490	\$ 1,080,490	0.00%	\$ 9,497,190	11.38%
January 1, 2010	-	1,469,265	1,469,265	0.00	11,088,106	13.25

See Note 4.C., Other Postemployment Benefits, for more information.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. Budgetary Information

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

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

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

Encumbrance accounting is employed in governmental funds.

2. Excess of Expenditures Over Appropriations

The following major governmental funds had expenditures in excess of budget at the function level for the year ended December 31, 2011:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund			
Current			
Public safety	\$ 6,961,381	\$ 6,758,717	\$ 202,664
Sanitation	80,977	74,350	6,627
Culture and recreation	52,418	6,667	45,751
Economic development	10,850	10,350	500
Family Services Special Revenue Fund			
Current			
Human services	7,551,657	7,364,635	187,022

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Other Postemployment Benefits Funding Status

Beginning in 2008, Mille Lacs County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets is zero. Currently, only two actuarial valuations are available. Future reports will provide additional trend analysis to meet the three-year valuation funding status requirement as the information becomes available.

See Note 4.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

SUPPLEMENTARY INFORMATION

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

Community Health Services - to account for Mille Lacs and Isanti Counties' Cooperative Community Health Services. Financing is provided by a state grant. This fund was closed into the Family Services Special Revenue Fund at year end.

Housing and Redevelopment Authority - to account for the activities of the Mille Lacs County Housing and Redevelopment Authority. Financing is provided by property taxes. This fund was closed into the General Fund at year end.

FIDUCIARY FUND

Agency Fund - to account for assets held by the County as an agent for other governmental units, individuals, private organizations, or other funds.

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT B-1

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Special Revenue Funds</u>			<u>Total</u>
	<u>Ditch</u>	<u>Community Health Services</u>	<u>Housing and Redevelopment Authority</u>	
Revenues				
Special assessments	\$ 9,412	\$ -	\$ -	\$ 9,412
Intergovernmental	-	74,083	-	74,083
Charges for services	-	20,233	-	20,233
Miscellaneous	-	1,961	-	1,961
Total Revenues	\$ 9,412	\$ 96,277	\$ -	\$ 105,689
Expenditures				
Current				
Health	\$ -	\$ 116,452	\$ -	\$ 116,452
Conservation of natural resources	14,966	-	-	14,966
Total Expenditures	\$ 14,966	\$ 116,452	\$ -	\$ 131,418
Excess of Revenues Over (Under) Expenditures	\$ (5,554)	\$ (20,175)	\$ -	\$ (25,729)
Other Financing Sources (Uses)				
Transfers out	-	(75,835)	(10,237)	(86,072)
Net Change in Fund Balance	\$ (5,554)	\$ (96,010)	\$ (10,237)	\$ (111,801)
Fund Balance - January 1	(14,961)	96,010	10,237	91,286
Fund Balance - December 31	\$ (20,515)	\$ -	\$ -	\$ (20,515)

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT B-2

**BUDGETARY COMPARISON SCHEDULE
COMMUNITY HEALTH SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 122,651	\$ 122,651	\$ 74,083	\$ (48,568)
Charges for services	20,000	20,000	20,233	233
Miscellaneous	-	-	1,961	1,961
Total Revenues	\$ 142,651	\$ 142,651	\$ 96,277	\$ (46,374)
Expenditures				
Current				
Health				
Community health services	\$ 94,138	\$ 94,138	\$ 50,935	\$ 43,203
Maternal and child health	49,313	49,313	65,517	(16,204)
Total Expenditures	\$ 143,451	\$ 143,451	\$ 116,452	\$ 26,999
Excess of Revenues Over (Under)				
Expenditures	\$ (800)	\$ (800)	\$ (20,175)	\$ (19,375)
Other Financing Sources (Uses)				
Transfers out	(95,210)	(95,210)	(75,835)	19,375
Net Change in Fund Balance	\$ (96,010)	\$ (96,010)	\$ (96,010)	\$ -
Fund Balance - January 1	96,010	96,010	96,010	-
Fund Balance - December 31	\$ -	\$ -	\$ -	\$ -

FIDUCIARY FUND

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MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT C-1

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>Assets</u>				
Cash and pooled investments	<u>\$ 682,395</u>	<u>\$ 46,828,162</u>	<u>\$ 46,822,007</u>	<u>\$ 688,550</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 682,395</u>	<u>\$ 46,828,162</u>	<u>\$ 46,822,007</u>	<u>\$ 688,550</u>

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OTHER SCHEDULES

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT D-1

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2011**

	Assets	Liabilities	Fund Balance			
	Cash and Pooled Investments	Advances From Other Funds	Restricted for Ditch Maintenance and Repairs	Unassigned	Total Fund Balance	Total Liabilities and Fund Balance
County Ditch						
2	\$ 997	\$ 6,800	\$ -	\$ (5,803)	\$ (5,803)	\$ 997
3	13,424	-	13,424	-	13,424	13,424
4	7,358	12,800	-	(5,442)	(5,442)	7,358
5	6,099	-	6,099	-	6,099	6,099
14	211	29,004	-	(28,793)	(28,793)	211
Total	<u>\$ 28,089</u>	<u>\$ 48,604</u>	<u>\$ 19,523</u>	<u>\$ (40,038)</u>	<u>\$ (20,515)</u>	<u>\$ 28,089</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2011**

Shared Revenue

State

Highway users tax	\$	4,227,765
County program aid		1,214,150
PERA rate reimbursement		30,786
Disparity reduction aid		24,711
Police aid		152,999
Indian casino aid		54,437
Enhanced 911		99,331
Market value credit		905,305
		905,305

Total shared revenue **\$ 6,709,484**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	844,959
		844,959

Payments

Local

Other	\$	36,465
Payments in lieu of taxes		213,889
		213,889

Total payments **\$ 250,354**

Grants

State

Minnesota Department/Board of		
Public Safety	\$	126,634
Health		79,906
Natural Resources		67,855
Human Services		1,187,371
Corrections		201,786
Transportation		49,979
Secretary of State		837
Water and Soil Resources		103,780
Peace Officer Standards and Training Board		9,468
Pollution Control Agency		41,836
		41,836

Total state **\$ 1,869,452**

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT D-2
(Continued)

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2011

Grants	
Federal	
Department of	
Agriculture	\$ 242,362
Commerce	30,507
Justice	25,500
Transportation	740,815
Energy	23,561
Health and Human Services	1,981,492
Homeland Security	14,992
	<hr/>
Total federal	\$ 3,059,229
	<hr/>
Total state and federal grants	\$ 4,928,681
	<hr/>
Total Intergovernmental Revenue	\$ 12,733,478
	<hr/> <hr/>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT D-3

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 76,963
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	165,399
Total U.S. Department of Agriculture		\$ 242,362
U.S. Department of Commerce		
Passed Through Central Minnesota Regional Radio Board Public Safety Interoperable Communications Grant Program	11.555	\$ 30,507
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Public Safety Partnership and Community Policing Grants	16.710	\$ 25,500
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 730,303
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	2,406
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	8,106
Total U.S. Department of Transportation		\$ 740,815
U.S. Department of Energy		
Passed Through Minnesota Commerce Department Energy Efficiency and Conservation Block Grant Program - ARRA	81.128	\$ 23,561

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**EXHIBIT D-3
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Isanti County		
Public Health Emergency Preparedness	93.069	\$ 41,492
Temporary Assistance for Needy Families (TANF) Cluster		
Temporary Assistance for Needy Families	93.558	45,663
Immunization - ARRA	93.712	3,083
Medical Assistance Program	93.778	57,206
Maternal and Child Health Services Block Grant to the States	93.994	27,057
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	23,139
Temporary Assistance for Needy Families (TANF) Cluster		
Temporary Assistance for Needy Families	93.558	279,553
Emergency Contingency Fund for TANF State Program - ARRA	93.714	8,197
Child Support Enforcement	93.563	406,335
Child Care and Development Fund Cluster		
Child Care and Development Block Grant	93.575	1,277
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	11,921
Stephanie Tubbs Jones Child Welfare Services Program	93.645	4,260
Foster Care Title IV-E	93.658	160,542
Social Services Block Grant	93.667	208,510
Chafee Foster Care Independence Program	93.674	9,198
Children's Health Insurance Program	93.767	101
Medical Assistance Program	93.778	680,979
Block Grants for Community Mental Health Services	93.958	12,979
		\$ 1,981,492
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 4,085
Passed Through West Central EMS		
Homeland Security Grant Program	97.067	10,907
		\$ 14,992
		\$ 3,059,229

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Mille Lacs County under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Mille Lacs County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Mille Lacs County.

3. Summary of Significant Accounting Policies

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

4. Clusters

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

Temporary Assistance for Needy Families Cluster	\$	333,413
Child Care and Development Fund Cluster		13,198

5. Subrecipients

During 2011, the County did not pass any federal money to subrecipients.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

6. American Recovery and Reinvestment Act

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

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major programs are:

Highway Planning and Construction	CFDA #20.205
Temporary Assistance for Needy Families (TANF) Cluster	
Temporary Assistance for Needy Families	CFDA #93.558
Emergency Contingency Fund for TANF State Program - ARRA	CFDA #93.714
Child Support Enforcement	CFDA #93.563

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

Mille Lacs County qualified as low-risk auditee? **Yes**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 Segregation of Duties

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion. Responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction.

Condition: Several of the County's departments that collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

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

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

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

Client's Response:

Mille Lacs County management is aware of this situation. The County will continue to review and modify procedures periodically to address issues related to the lack of segregation of duties.

ITEMS ARISING THIS YEAR

11-1 Segregation of Duties/Vendor Setup

Criteria: A good system of internal control includes written procedures to monitor new vendors entered into the accounting system. Procedures should include someone independent of the disbursement process reviewing, verifying, and approving new vendors.

Condition: During our review of the disbursements process we noted that some individuals had the ability to both process disbursements and set up new vendors.

Context: Segregation of duties between disbursements and vendor setup is limited due to the number of office personnel within the County.

Effect: Inadequate segregation of duties between disbursements and vendor setup increases the risk of fraud.

Cause: The County does not have written procedures governing the setup of new vendors.

Recommendation: We recommend the County re-evaluate whether separation of duties between disbursements and vendor setup is possible. Formal written policies and procedures should be developed to monitor new vendors entered into the accounting system.

Client's Response:

We are, at this time, in the process of writing formal vendor policy and procedures which will include segregation of duties.

11-2 Social Service Information System (SSIS) Access and Comment Page/Log

Criteria: Standard internal controls for social service agreements should include restricting the entering of service agreement information into SSIS to social workers with approval from their supervisor. Any changes to the service agreement information should be logged on the comment page of SSIS.

Condition: During our review of the SSIS service agreement process we noted that a finance worker, not a social worker, could change SSIS service agreement information without supervisor approval. We further found that, when the finance worker changed the information back, neither the original change, nor the reversal, was recorded on the comment page of SSIS.

Context: Social workers, not finance workers, should enter service agreement information into SSIS with supervisor approval; finance workers should be restricted to financial accounting. Any changes to the service agreement information should be logged into SSIS.

Effect: Inadequate controls over the service agreement information entered into SSIS increases the risk of an undetected fraud.

Cause: The County does not have written policies and procedures governing access to service agreement information in SSIS. Furthermore, the option to record SSIS changes to service agreements appears to be disabled.

Recommendation: We recommend the County adopt formal written policies and procedures restricting changes to service agreements to social workers with supervisor approval. Also, the County should investigate why SSIS does not record changes to service agreements.

Client's Response:

We will be writing SSIS policies which will include these issues. We are also investigating the SSIS program to determine why it is not recording the service agreement changes.

PREVIOUSLY REPORTED ITEM RESOLVED

Preparation of Financial Statements (02-1)

The County needed to broaden its participation in the preparation of its financial statements and not rely so extensively on its external auditors for financial reporting.

Resolution

The County provides a general ledger, accruals, a GASB34 Audit List, and other supporting schedules necessary for preparing fund level and government-wide financial statements. The County has improved its understanding and preparation of underlying accounting data used in the preparation of the financial statements.

Preparation of the Schedule of Expenditures of Federal Awards (10-1)

The County needed to improve its system of identifying federal award information to facilitate preparation of the Schedule of Expenditures of Federal Awards (SEFA).

Resolution

The County has improved its system of identifying federal award information to provide sufficient information for the preparation of the SEFA.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

Board of County Commissioners
Mille Lacs County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mille Lacs County as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 24, 2012. 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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 96-1, 11-1, and 11-2, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, 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 Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because the County has no tax increment financing districts.

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

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 24, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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REBECCA OTTO
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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Mille Lacs County

Compliance

We have audited Mille Lacs County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. Mille Lacs County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Mille Lacs County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of Mille Lacs County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

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

/s/Rebecca Otto

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/s/Greg Hierlinger

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