

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

GRANT COUNTY
ELBOW LAKE, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

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

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

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Year Ended December 31, 2004



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

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Introductory Section		
Organization Schedule		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		5
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	14
Statement of Activities	Exhibit 2	15
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	17
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	Exhibit 4	18
Statement of Revenues, Expenditures, and Changes in Fund Balance	Exhibit 5	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	Exhibit 6	20
Fiduciary Funds		
Statement of Fiduciary Net Assets	Exhibit 7	21
Notes to the Financial Statements		22
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	55
Road and Bridge Special Revenue Fund	Schedule 2	57
Human Services Special Revenue Fund	Schedule 3	58
Notes to the Required Supplementary Information		59

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Financial Section (Continued)		
Supplementary Information		
Combining and Individual Fund Financial Statements		
Nonmajor Governmental Funds		60
Combining Balance Sheet	Statement 1	61
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	Statement 2	63
Budgetary Comparison Schedules		
Public Health Nurse Special Revenue Fund	Schedule 4	65
Transportation Special Revenue Fund	Schedule 5	66
Agency Funds		67
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	Statement 3	68
Other Schedules		
Balance Sheet - By Ditch - Ditch Special Revenue Fund	Schedule 6	70
Schedule of Intergovernmental Revenue	Schedule 7	72
Management and Compliance Section		
Schedule of Findings and Recommendations	Schedule 8	73
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		80

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2004**

Office	Name	Term Expires
Commissioners		
1st District	Charles Foss	January 2005
2nd District	Ronald Woltjer	January 2007
3rd District	Jennes Swenson*	January 2005
4th District	Richard S. Kastner	January 2007
5th District	Vernell Wagner	January 2005
Officers		
Elected		
Attorney	Lyndon Kratochwill	January 2007
Auditor	Chad Van Santen	January 2007
Coroner	Larry Rapp, D. O.	January 2007
County Recorder	Patti Nordby	January 2007
Sheriff	Dwight Walvatne	January 2007
Treasurer	Patricia Soberg	January 2007
Appointed		
Assessor	Susan Lohse	January 2005
Highway Engineer	Luke Hagen	May 2007
Veterans Service Officer	Ardell Bergrud	Indefinite
Social Services Board		
Vice Chair	Charles Foss	January 2005
Member	Richard S. Kastner	January 2007
Member	Jennes Swenson	January 2005
Member	Ronald Woltjer	January 2007
Member	Vernell Wagner	January 2005
Director (Board Chair)	Joyce Pesch	Indefinite

*Chair

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PATRICIA ANDERSON
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Grant County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Grant County, Minnesota, as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Grant County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Housing and Redevelopment Authority (HRA) of Grant County, a discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the HRA of Grant County, is based solely upon the report of the other auditors.

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

Grant County has not updated or made a physical count of its hospital office furniture and equipment and machinery and automotive equipment capital asset inventory for a number of years. Grant County's records do not provide complete accounting control over quantities, costs, and depreciation of its hospital capital assets and, therefore, do not permit the application of auditing procedures over these assets.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the Grant County Hospital capital assets, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Grant County as of December 31, 2004, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the discretely presented component unit, each major fund, and the aggregate remaining fund information for Grant County as of December 31, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, Grant County adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in the format and content of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated January 5, 2006, on our consideration of Grant County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and

grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. It does not include the HRA of Grant County, which was audited by other auditors.

/s/Pat Anderson

/s/Greg Hierlinger

PATRICIA ANDERSON
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: January 5, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004
(Unaudited)**

INTRODUCTION

Grant 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, 2004. Because fiscal year 2004 represents the first year in which Grant County implemented the provisions of Governmental Accounting Standards Board (GASB) Statement 34, this discussion and analysis provides only limited comparisons with the previous year. The MD&A is new and will now be presented at the front of each year's audited financial statements. Future MD&A reports will include significantly more comparable information. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with Grant County's financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$18,089,907, of which Grant County has invested \$13,312,616 in capital assets, net of related debt, and \$113,849 is restricted to specific purposes/uses by the County.
- The net cost of Grant County's governmental activities for the year ended December 31, 2004, was \$3,143,967; the net cost was funded by general revenues and other items totaling \$3,546,001.
- During the year, Grant County issued \$210,000 of General Obligation Capital Improvement Bonds for courthouse improvements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

New Government-Wide Financial Statements	Refocused Fund Financial Statements
---	--

Notes to the Financial Statements
(Changed and Expanded from Prior Year Reporting)

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

Grant County presents two government-wide financial statements. They are the Statement of Net Assets and the Statement of Activities. These two government-wide financial statements provide information about the activities of the County as a whole and present a longer-term view of Grant County’s finances. The County’s fund financial statements follow these two government-wide financial statements. For governmental funds, these statements tell how Grant 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 statement provides 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 Grant County as a whole and about its activities in a way that helps the reader determine whether Grant 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 Grant County’s current year revenues and expenses, regardless of when the County receives the revenue or pays the expense, 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 Grant County’s financial health or financial position. Over time, increases or decreases in the County’s net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the County’s property tax base and the general economic conditions of the state and County, to assess the overall health of Grant County.

- Governmental activities--Grant 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. Grant County finances the majority of these activities with local property taxes, state-paid aids, fees, charges for services, and federal and state grants.
- Component unit--Grant County includes a separate legal entity in its report, the Housing and Redevelopment Authority of Grant County. This entity is presented in a separate column. Although legally separate, the component unit is important because the County is financially accountable for it.

Fund Financial Statements

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

- Governmental funds--Most of Grant County’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending. These funds are reported in our 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 there are financial resources available that can be spent in the near future to finance various programs within Grant 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.
- Fiduciary funds--Grant 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 its fiduciary activities in a separate Statement of 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. Grant County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE COUNTY AS A WHOLE

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

Table 1
Net Assets

	Governmental Activities		Percent Change (%)
	2004	2003	
Assets			
Current and other assets	\$ 5,608,179	(1)	(1)
Capital assets, net of accumulated depreciation	<u>13,490,511</u>	(1)	(1)
Total Assets	<u>\$ 19,098,690</u>	(1)	(1)
Liabilities			
Current liabilities	\$ 427,413	(1)	(1)
Long-term liabilities	<u>581,370</u>	(1)	(1)
Total Liabilities	<u>\$ 1,008,783</u>	(1)	(1)
Net Assets			
Invested in capital assets, net of related debt	\$ 13,312,616	(1)	(1)
Restricted	113,849	(1)	(1)
Unrestricted	<u>4,663,442</u>	(1)	(1)
Total Net Assets	<u>\$ 18,089,907</u>	(1)	(1)

(1) The County did not restate its 2003 financial statements in this first year of implementation of GASB Statement 34. Comparative information will be provided in future years.

Grant County's total net assets for the year ended December 31, 2004, total \$18,089,907. The governmental activities' unrestricted net assets, totaling \$4,663,442, are available to finance the day-to-day operations of the governmental activities of Grant County.

Table 2
Changes in Net Assets

	Governmental Activities		Percent Change (%)
	2004	2003	
Revenues			
Program revenues			
Fees, charges, fines, and other	\$ 1,209,043	(1)	(1)
Operating grants and contributions	4,013,487	(1)	(1)
Capital grants and contributions	61,428	(1)	(1)
General revenues			
Property taxes	2,621,887	(1)	(1)
Other taxes	32,599	(1)	(1)
Grants and contributions not restricted to specific programs	844,339	(1)	(1)
Unrestricted investment income	<u>47,176</u>	(1)	(1)
Total Revenues	<u>\$ 8,829,959</u>	(1)	(1)

	Governmental Activities		Percent Change (%)
	2004	2003	
Expenses			
General government	\$ 1,371,841	(1)	(1)
Public safety	931,238	(1)	(1)
Highways and streets	2,702,539	(1)	(1)
Sanitation	510,076	(1)	(1)
Human services	2,241,129	(1)	(1)
Health	381,135	(1)	(1)
Culture and recreation	61,594	(1)	(1)
Conservation of natural resources	183,734	(1)	(1)
Economic development	35,000	(1)	(1)
Interest	9,639	(1)	(1)
Total Expenses	\$ 8,427,925	(1)	(1)
Increase in Net Assets	\$ 402,034	(1)	(1)
Net Assets - January 1	17,687,873	(1)	(1)
Net Assets – December 31	\$ 18,089,907	(1)	(1)

(1) The County did not restate its 2003 financial statements in this first year of implementation of GASB Statement 34. Comparative information will be provided in future years.

Governmental Activities

Revenues for Grant County’s governmental activities for the year ended December 31, 2004, were \$8,829,959. The County’s cost for all governmental activities for the year ended December 31, 2004, was \$8,427,925. The net assets for the County’s governmental activities increased by \$402,034 in 2004.

As shown in the Statement of Activities, the amount that Grant County taxpayers ultimately financed for these governmental activities through local property taxation was \$2,621,887, because \$5,283,958 of the costs were paid by those who directly benefited from the programs, and \$844,339 was paid by other governments and organizations that subsidized certain programs with grants and contributions. Grant County paid for the remaining “public benefit” portion of governmental activities with \$79,775 in other revenues, such as investment income, mortgage registry tax, and state deed tax.

**Total County Revenue
(Percent of Total)**

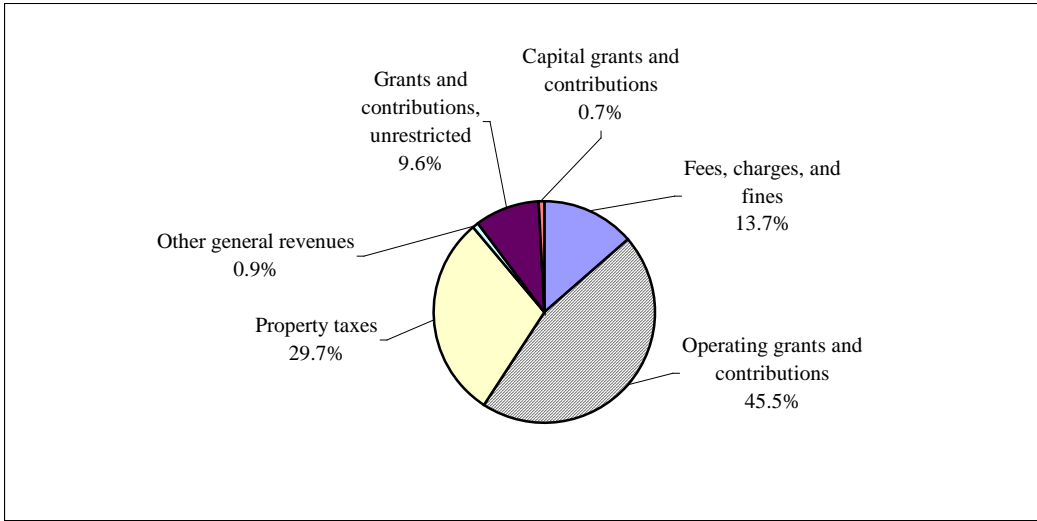
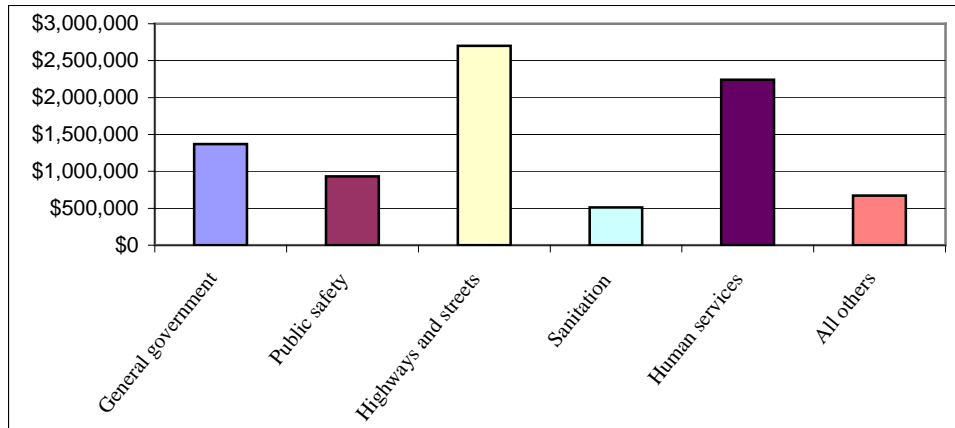


Table 3 presents the cost of each of Grant County’s five largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden placed on Grant County’s taxpayers by each of these functions.

**Table 3
Governmental Activities**

	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses		
General government	\$ 1,371,841	\$ 1,120,390
Public safety	931,238	729,742
Highways and streets	2,702,539	256,074
Sanitation	510,076	49,127
Human services	2,241,129	585,515
All others	671,102	403,119
Total Program Expenses	\$ 8,427,925	\$ 3,143,967

**Governmental Activities Expenses
2004**



THE COUNTY’S FUNDS

As Grant County completed the year, its governmental funds as presented in the Balance Sheet reported a combined fund balance of \$2,918,365.

General Fund Budgetary Highlights

The Grant County Board of Commissioners, over the course of a budget year, may amend/revise the County’s General Fund budget; however, in 2004, the County Board of Commissioners made no changes to the adopted budget. If the County Board of Commissioners had made changes to the budget as originally adopted, these budget amendments/revisions would have fallen into one of three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts.

In the General Fund, the actual revenues were slightly above the expected revenues by \$44,904, and actual expenditures were \$152,359 more than budgeted expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, Grant County had \$13,490,511 invested in a broad range of capital assets, net of depreciation. This investment in capital assets includes land, buildings, highways and streets, and equipment (see Table 4).

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

	<u>2004</u>	<u>2003</u>	<u>Percent Change (%)</u>
Land and rights-of-way	\$ 559,036	(1)	(1)
Buildings	1,396,247	(1)	(1)
Office furniture and equipment	33,006	(1)	(1)
Machinery and automotive equipment	640,999	(1)	(1)
Infrastructure	<u>10,861,223</u>	(1)	(1)
Totals	<u>\$ 13,490,511</u>	(1)	(1)

(1) The County did not restate its 2003 financial statements in this first year of implementation of GASB Statement 34. Comparative information will be provided in future years.

Long-Term Debt

At December 31, 2004, Grant County had \$280,000 in bonds outstanding, compared with \$140,000 as of December 31, 2003--an increase of 100 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	<u>Governmental Activities</u>		<u>Percent Change (%)</u>
	<u>2004</u>	<u>2003</u>	
Bonds Payable			
1999 G.O. Ditch Bonds	\$ 70,000	\$ 140,000	(50.0)
2004 G.O. Capital Improvement Bonds	<u>210,000</u>	<u>-</u>	N/A
Totals	<u>\$ 280,000</u>	<u>\$ 140,000</u>	100.0

New debt resulted from issuing \$210,000 in General Obligation Capital Improvement Bonds for courthouse improvements. Grant County maintains an "A3" rating from Moody's Investor Services. Other long-term obligations include compensated absences. Grant 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 2005 budget and tax rates.

- For the past three years, the State of Minnesota has projected a budget deficit. How the State of Minnesota resolves this deficit could have a significant impact on future Grant County budgets. Major revenue sources for the County are state-paid aids, credits, and grants. Should the State of Minnesota significantly reduce these revenues or pass on costs to the County, it would have a significant impact on next year's budget.
- Land development and regulation issues affected the budget and tax rates.
- Reviewing revenue sources and considering cost-effective and efficient means for the delivery of Grant County programs and services will influence the development of future budgets.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

Grant County's financial report provides citizens, taxpayers, customers, investors, and creditors with a general overview of Grant 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 Chad Van Santen, Grant County Auditor, (218-685-4520), Grant County Courthouse, 10 Second Street N.E., P. O. Box 1007, Elbow Lake, Minnesota 56531-1007.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

	Primary Government Governmental Activities	Component Unit Housing and Redevelopment Authority of Grant County
<u>Assets</u>		
Cash and pooled investments	\$ 2,874,492	\$ 521,775
Petty cash and change funds	2,000	-
Taxes receivable		
Delinquent	84,846	-
Special assessments receivable		
Delinquent	295	-
Accounts receivable	63,775	30,894
Accrued interest receivable	3,709	-
Due from other governments	2,438,395	24,432
Advances to other governments	30,000	-
Inventories	105,908	-
Prepaid items	-	12,387
Deferred charges	4,759	-
Capital assets		
Non-depreciable	559,036	522,644
Depreciable - net of accumulated depreciation	12,931,475	2,095,977
Total Assets	\$ 19,098,690	\$ 3,208,109
<u>Liabilities</u>		
Accounts payable	\$ 120,249	\$ 106,238
Salaries payable	49,025	1,769
Contracts payable	138,485	-
Due to other governments	76,337	30,500
Accrued interest payable	1,444	4,781
Unearned revenue	41,873	-
Tenant security deposits	-	16,200
Long-term liabilities		
Due within one year	148,507	3,427
Due in more than one year	432,863	1,231,551
Total Liabilities	\$ 1,008,783	\$ 1,394,466
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 13,312,616	\$ 1,493,621
Restricted for		
General government	38,218	-
Public safety	58,190	-
Highways and streets	17,441	-
Unrestricted	4,663,442	320,022
Total Net Assets	\$ 18,089,907	\$ 1,813,643

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 1,371,841	\$ 196,646
Public safety	931,238	87,686
Highways and streets	2,702,539	101,984
Sanitation	510,076	460,949
Human services	2,241,129	209,153
Health	381,135	62,962
Culture and recreation	61,594	-
Conservation of natural resources	183,734	89,663
Economic development	35,000	-
Interest	9,639	-
	\$ 8,427,925	\$ 1,209,043
Total governmental activities	\$ 8,427,925	\$ 1,209,043
Component unit		
Housing and Redevelopment Authority of Grant County	\$ 692,582	\$ 281,039

General Revenues

Property taxes
Tax increments
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Unrestricted investment income
Miscellaneous

Total general revenues

Change in net assets

Net Assets - Beginning, as restated (Note 5.D.)

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Component Unit Housing and Redevelopment Authority of Grant County
\$ 44,662	\$ 10,143	\$ (1,120,390)	
113,810	-	(729,742)	
2,293,196	51,285	(256,074)	
-	-	(49,127)	
1,446,461	-	(585,515)	
59,924	-	(258,249)	
-	-	(61,594)	
55,434	-	(38,637)	
-	-	(35,000)	
-	-	(9,639)	
\$ 4,013,487	\$ 61,428	\$ (3,143,967)	
\$ 217,732	\$ 240,067		\$ 46,256
		\$ 2,621,887	\$ 35,000
		-	26,197
		32,599	-
		844,339	-
		47,176	5,425
		-	8,618
		\$ 3,546,001	\$ 75,240
		\$ 402,034	\$ 121,496
		17,687,873	1,692,147
		\$ 18,089,907	\$ 1,813,643

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	Road and Bridge	Human Services	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>					
Cash and pooled investments	\$ 1,006,786	\$ 667,377	\$ 634,473	\$ 565,856	\$ 2,874,492
Petty cash and change funds	1,825	100	25	50	2,000
Taxes receivable					
Delinquent	43,692	15,680	15,591	9,883	84,846
Special assessments receivable					
Delinquent	-	-	-	295	295
Accounts receivable	10,297	-	49,614	3,864	63,775
Accrued interest receivable	3,503	-	-	206	3,709
Due from other funds	150,876	490	-	1,387	152,753
Due from other governments	15,699	2,173,030	201,001	48,665	2,438,395
Inventories	-	105,908	-	-	105,908
Advances to other governments	-	-	30,000	-	30,000
Total Assets	\$ 1,232,678	\$ 2,962,585	\$ 930,704	\$ 630,206	\$ 5,756,173
<u>Liabilities and Fund Balance</u>					
Liabilities					
Accounts payable	\$ 24,741	\$ 19,951	\$ 63,560	\$ 11,997	\$ 120,249
Salaries payable	11,106	37,100	819	-	49,025
Contracts payable	-	138,485	-	-	138,485
Due to other funds	-	-	19,915	132,838	152,753
Due to other governments	46,634	187	20,611	8,905	76,337
Deferred revenue - unavailable	34,472	2,087,294	118,219	19,101	2,259,086
Deferred revenue - unearned	-	-	41,873	-	41,873
Total Liabilities	\$ 116,953	\$ 2,283,017	\$ 264,997	\$ 172,841	\$ 2,837,808
Fund Balance					
Reserved for					
Inventories	\$ -	\$ 105,908	\$ -	\$ -	\$ 105,908
Advances to other governments	-	-	30,000	-	30,000
Sheriff's contingency	4,764	-	-	-	4,764
Law library	34,032	-	-	-	34,032
Enhanced 911	44,726	-	-	-	44,726
Recorder's equipment	4,186	-	-	-	4,186
DUI forfeitures	8,700	-	-	-	8,700
State-aid highway projects	-	17,441	-	-	17,441
Unreserved					
Designated for debt service	-	-	-	70,000	70,000
Designated for cash flows	800,000	500,000	500,000	-	1,800,000
Undesignated	219,317	56,219	135,707	-	411,243
Unreserved, reported in nonmajor					
Special revenue funds	-	-	-	355,260	355,260
Capital projects fund	-	-	-	32,105	32,105
Total Fund Balance	\$ 1,115,725	\$ 679,568	\$ 665,707	\$ 457,365	\$ 2,918,365
Total Liabilities and Fund Balance	\$ 1,232,678	\$ 2,962,585	\$ 930,704	\$ 630,206	\$ 5,756,173

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Fund balances - total governmental funds (Exhibit 3)	\$	2,918,365
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.		13,490,511
Deferred charges are not available to pay current expenditures and, therefore, are not reported in the governmental funds.		4,759
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.		2,259,086
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	\$ (280,000)	
Compensated absences	(301,370)	(581,370)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the governmental funds.		(1,444)
Net assets of governmental activities (Exhibit 1)	\$	<u>18,089,907</u>

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General	Road and Bridge	Human Services	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 1,463,711	\$ 504,145	\$ 501,726	\$ 134,934	\$ 2,604,516
Special assessments	-	-	-	152,428	152,428
Licenses and permits	3,459	-	-	52	3,511
Intergovernmental	655,963	2,228,954	1,399,221	249,008	4,533,146
Charges for services	259,534	64,223	40,030	515,952	879,739
Gifts and contributions	185	-	26,000	-	26,185
Investment income	44,925	-	-	2,251	47,176
Miscellaneous	108,151	37,761	95,814	7,368	249,094
Total Revenues	\$ 2,535,928	\$ 2,835,083	\$ 2,062,791	\$ 1,061,993	\$ 8,495,795
Expenditures					
Current					
General government	\$ 1,508,187	\$ -	\$ -	\$ -	\$ 1,508,187
Public safety	908,381	-	-	-	908,381
Highways and streets	-	2,712,058	-	-	2,712,058
Sanitation	-	-	-	510,076	510,076
Human services	-	-	2,124,979	140,249	2,265,228
Health	-	-	-	419,224	419,224
Culture and recreation	61,594	-	-	-	61,594
Conservation of natural resources	162,360	-	-	21,374	183,734
Economic development	35,000	-	-	-	35,000
Intergovernmental					
Highways and streets	-	163,533	-	-	163,533
Capital outlay	-	-	-	171,550	171,550
Debt service					
Principal retirement	-	-	-	70,000	70,000
Interest	2,861	-	-	5,192	8,053
Bond issuance costs	-	-	-	6,345	6,345
Total Expenditures	\$ 2,678,383	\$ 2,875,591	\$ 2,124,979	\$ 1,344,010	\$ 9,022,963
Excess of Revenues Over (Under) Expenditures	\$ (142,455)	\$ (40,508)	\$ (62,188)	\$ (282,017)	\$ (527,168)
Other Financing Sources (Uses)					
Bonds issued	-	-	-	210,000	210,000
Net Change in Fund Balance	\$ (142,455)	\$ (40,508)	\$ (62,188)	\$ (72,017)	\$ (317,168)
Fund Balance - January 1	1,258,180	686,016	727,895	529,382	3,201,473
Increase (decrease) in reserved for inventories	-	34,060	-	-	34,060
Fund Balance - December 31	\$ 1,115,725	\$ 679,568	\$ 665,707	\$ 457,365	\$ 2,918,365

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FIDUCIARY FUNDS

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Net change in fund balances - total governmental funds (Exhibit 5) **\$ (317,168)**

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

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

Deferred revenue - December 31	\$ 2,259,086	
Deferred revenue - January 1	(1,838,549)	420,537

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 capital assets is reported; whereas, in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the capital assets disposed of.

Expenditures for general capital assets and infrastructure	\$ 1,438,121	
Net book value of disposed assets	(32,907)	
Current year depreciation	(957,319)	447,895

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

Debt issued	\$ (210,000)	
Principal repayments	70,000	
Issuance costs	6,345	(133,655)

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.

Amortization of issuance costs	\$ (1,586)	
Change in compensated absences	(48,049)	
Change in inventories	34,060	(15,575)

Change in net assets of governmental activities (Exhibit 2) **\$ 402,034**

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2004**

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 126,824</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 126,824</u>

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. 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.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes in the statement include the following:

- a Management's Discussion and Analysis section providing an analysis of the County's overall financial position and results of operations;
- financial statements prepared using full accrual accounting for all of the County's activities, including infrastructure (roads, bridges, etc.); and
- a change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The County has elected to implement all provisions of the statement in the current year.

A. Financial Reporting Entity

Grant County was established March 6, 1868, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Grant County (primary government) and its component unit for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Unit

The Housing and Redevelopment Authority (HRA) of Grant County is a component unit of Grant County and is reported in a separate column in the County's government-wide financial statements to emphasize that the HRA is legally separate from Grant County. The HRA operates as a local governmental unit for the purpose of providing housing and redevelopment services to Grant County. The governing body consists of a five-member Board of Commissioners appointed by the Grant County Board of Commissioners to serve five-year terms. The financial statements included are as of and for the year ended December 31, 2004.

<u>Component Unit</u>	<u>Component Unit Reporting Entity Because</u>	<u>Separate Financial Statements</u>
The HRA of Grant County provides services pursuant to Minn. Stat. §§ 469.001-.047.	The County appoints members, and the HRA is a financial burden.	Grant County Coordinator's Office P. O. Box 1007 Elbow Lake, Minnesota 56531

Joint Ventures

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

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.

In the government-wide statement of net assets, the governmental activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

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

C. Measurement Focus and Basis of Accounting

The government-wide and 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. Grant County considers all revenues to be available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be 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, then unrestricted resources as they are needed.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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 Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2004, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund.

Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2004 were \$47,176.

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

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

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

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

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).

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

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

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

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

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories

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

4. Capital Assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the County, as well as its component unit, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and building improvements	30 - 40
Office furniture and equipment	3 - 15
Machinery and automotive equipment	3 - 20
Infrastructure	25 - 75

**GRANT COUNTY
ELBOW LAKE, 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 vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide 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.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Fund Equity

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

9. Use of Estimates

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$1,944,170. The bank balance deposit amount was \$2,320,673. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 300,000
Collateralized with securities held by the pledging financial institution's agent in the County's name	<u>2,020,673</u>
Total covered deposits	\$ 2,320,673
Uncollateralized	<u>-</u>
Total	<u>\$ 2,320,673</u>

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

- (1) securities that are insured or registered, or for which the securities are held by the County or its agent in the County's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the County's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the County's name.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Following is a summary of the fair values of the County's investments, categorized into the aforementioned levels of risk, at December 31, 2004:

	Category			Fair Value
	1	2	3	
U.S. government securities	\$ 1,051	\$ -	\$ -	\$ 1,051
Negotiable certificates of deposit	185,000	-	-	185,000
Money market account with broker	2,893	-	-	2,893
Total Investments	\$ 188,944	\$ -	\$ -	\$ 188,944
Add				
Cash on hand				2,000
Cash in bank				1,544,170
Certificates of deposit				400,000
MAGIC Fund				868,202
Total Cash and Investments				\$ 3,003,316

The County's total cash and investments are reported as follows:

Governmental activities	
Cash and pooled investments	\$ 2,874,492
Petty cash	2,000
Fiduciary funds	
Agency funds	
Cash and pooled investments	126,824
Total Cash and Investments	\$ 3,003,316

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2004, for the County's governmental activities and including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 84,846	\$ -
Special assessments	295	-
Accounts	63,775	-
Accrued interest	3,709	-
Due from other governments	2,438,395	-
Advances to other governments	30,000	30,000
Total Governmental Activities	\$ 2,621,020	\$ 30,000

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Increase	Decrease	Adjustment	Ending Balance
Capital assets not depreciated					
Land	\$ 222,806	\$ 9,889	\$ 15,312	\$ -	\$ 217,383
Right-of-way	308,117	33,536	-	-	341,653
Total capital assets not depreciated	\$ 530,923	\$ 43,425	\$ 15,312	\$ -	\$ 559,036
Capital assets depreciated					
Buildings	\$ 2,680,907	\$ 381,128	\$ -	\$ (55,507)	\$ 3,006,528
Office furniture and equipment	1,843,390	26,149	58,676	(223,169)	1,587,694
Machinery and automotive equipment	2,843,086	198,497	141,295	(238,521)	2,661,767
Infrastructure	18,120,056	788,922	-	-	18,908,978
Total capital assets depreciated	\$ 25,487,439	\$ 1,394,696	\$ 199,971	\$ (517,197)	\$ 26,164,967
Less: accumulated depreciation for					
Buildings	\$ 1,602,850	\$ 62,938	\$ -	\$ (55,507)	\$ 1,610,281
Office furniture and equipment	1,825,985	10,548	58,676	(223,169)	1,554,688
Machinery and automotive equipment	2,123,169	259,820	123,700	(238,521)	2,020,768
Infrastructure	7,423,742	624,013	-	-	8,047,755
Total accumulated depreciation	\$ 12,975,746	\$ 957,319	\$ 182,376	\$ (517,197)	\$ 13,233,492
Total capital assets depreciated, net	\$ 12,511,693	\$ 437,377	\$ 17,595	\$ -	\$ 12,931,475
Governmental Activities Capital Assets, Net	\$ 13,042,616	\$ 480,802	\$ 32,907	\$ -	\$ 13,490,511

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

A. Assets

3. Capital Assets (Continued)

During 2004, the County Board increased the capital asset capitalization limit to \$5,000. The adjustment column represents \$517,197 of fully depreciated assets that were under the \$5,000 limit.

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

Governmental Activities		
General government	\$	70,376
Public safety		17,741
Highways and streets, including depreciation of infrastructure assets		863,141
Human services		4,568
Health		1,493
Total Depreciation Expense	\$	957,319

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2004, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Human Services Special Revenue Fund Ditch Special Revenue Fund Public Health Nurse Special Revenue Fund Capital Projects Fund	\$ 18,528 177 1,621 <u>130,550</u>
Total Due to General Fund		\$ 150,876
Road and Bridge Special Revenue Fund	Ditch Special Revenue Fund	490
Transportation Special Revenue Fund	Human Services Special Revenue Fund	<u>1,387</u>
Total Due To/From Other Funds		\$ 152,753

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

	Governmental Activities
Accounts	\$ 120,249
Salaries	49,025
Contracts	138,485
Due to other governments	76,337
Accrued interest	1,444
Total Payables	\$ 385,540

2. Construction Commitments

The government has active construction projects as of December 31, 2004. The projects include the following:

	Remaining Commitment
Roads and bridges	\$ 17,441

3. Deferred Revenue

Deferred revenue consists of taxes and special assessments receivable, state grants not collected soon enough after year-end to pay liabilities of the current period, money from grants and state-aid highway allotments received but not yet earned, and other items. Deferred revenue at December 31, 2004, is summarized by fund:

	Taxes and Special Assessments	Grants	State-Aid Highway Allotments	Other	Total
Governmental funds					
General	\$ 34,472	\$ -	\$ -	\$ -	\$ 34,472
Road and Bridge	12,338	-	2,074,956	-	2,087,294
Human Services	12,289	147,803	-	-	160,092
Ditch	130	-	-	-	130
Public Health Nurse	3,362	-	-	-	3,362
Solid Waste	4,300	-	-	10,382	14,682
Transportation	-	757	-	170	927
Total	\$ 66,891	\$ 148,560	\$ 2,074,956	\$ 10,552	\$ 2,300,959

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

3. Deferred Revenue (Continued)

	Taxes and Special Assessments	Grants	State-Aid Highway Allotments	Other	Total
Deferred revenue					
Unavailable	\$ 66,891	\$ 106,687	\$ 2,074,956	\$ 10,552	\$ 2,259,086
Unearned	-	41,873	-	-	41,873
Total	<u>\$ 66,891</u>	<u>\$ 148,560</u>	<u>\$ 2,074,956</u>	<u>\$ 10,552</u>	<u>\$ 2,300,959</u>

4. Vacation and Sick Leave

Under the County's personnel policies, County employees are granted vacation in varying amounts based on their length of service. Vacation leave accrual varies from 12 to 24 days per year. Sick leave accrual is 12 days per year.

Unused accumulated vacation and vested sick leave are paid to employees upon termination. Unvested sick leave valued at \$447,203 at December 31, 2004, is available to employees in the event of illness-related absences, but is not paid to them upon termination.

5. Other Postemployment Benefits

Retirees

The County pays health insurance for employees who retire with at least 12 years experience, who have reached the age of 55, but who are under the age of 65 and not eligible for Medicare. The County pays 50 percent of the cost of single coverage. The County's contributions for the year ended December 31, 2004, were \$1,013. During 2004, one employee qualified for retired employee health insurance coverage.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Long-Term Debt

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
General Obligation Bonds					
1999 G.O. Ditch Bonds	2005	\$70,000	4.45 - 4.95	\$ 350,000	\$ 70,000
2004 G.O. Capital Improvement Bonds	2008	\$70,000	1.50 - 2.15	210,000	210,000
Total General Obligation Bonds				<u>\$ 560,000</u>	<u>\$ 280,000</u>

7. Debt Service Requirements

Debt service requirements at December 31, 2004, were as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 140,000	\$ 5,548
2006	70,000	2,765
2007	70,000	1,505
Total	<u>\$ 280,000</u>	<u>\$ 9,818</u>

8. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 140,000	\$ 210,000	\$ 70,000	\$ 280,000	\$ 140,000
Compensated absences	253,321	48,049	-	301,370	8,507
Total Long-Term Liabilities	<u>\$ 393,321</u>	<u>\$ 258,049</u>	<u>\$ 70,000</u>	<u>\$ 581,370</u>	<u>\$ 148,507</u>

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund.

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

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each successive year. Using 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 the 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 Retirement Fund members whose annuity is calculated using Method 1, and all Public Employees Police and Fire Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

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

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary.

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

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
Public Employees Police and Fire Fund	9.30

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

The County's contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund were:

		Public Employees Retirement Fund		Public Employees Police and Fire Fund
2004	\$	127,884	\$	28,019
2003		137,347		25,367
2002		138,463		23,315

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

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

The Workers' Compensation Division of the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

B. Contingent Liabilities

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

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

C. Joint Ventures

Area Agency on Aging

The Area Agency on Aging was established June 2, 1982, by a joint powers agreement among Becker, Clay, Douglas, Grant, Otter Tail, Pope, Stevens, Traverse, and Wilkin Counties. The agreement was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the nine-county area. Each county may be assessed a proportional share of 25 percent of the administrative costs incurred in carrying out this agreement. Each county's proportional share of the 25 percent of the administrative costs will be based upon the number of persons age 60 or older living within that county.

Control is vested in the West Central Board on Aging. The Board consists of one Commissioner from each of the counties. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Area Agency on Aging (Continued)

Complete financial information can be obtained from:

Area Agency on Aging
P. O. Box 726
Fergus Falls, Minnesota 56538-0726

Mid-State Community Health Services

Grant, Pope, Stevens, and Traverse Counties entered into a joint powers agreement creating and operating the Mid-State Community Health Services pursuant to Minn. Stat. § 471.59. Stevens-Traverse Public Health receives and administers the grant money.

Complete financial information can be obtained from the Stevens County Auditor's Office at the Courthouse or from:

Mid-State Community Health Services
621 Pacific Avenue
Morris, Minnesota 56267-1321

Minnesota River Basin

The Minnesota River Basin Joint Powers Board was established July 12, 1995, by an agreement between Grant County and 30 other counties. The agreement was made to promote orderly water quality improvement and management of the Minnesota River Watershed. Each county is responsible for its proportional share of the administrative budget and for its share of benefits from any special project.

In the event of termination of the agreement, all property, real and personal, held by the Joint Powers Board shall be distributed by resolution of the policy committee to best accomplish the continuing purposes of the project. Control is vested in an Executive Board of five officers elected from the membership of the Joint Powers Board, consisting of one representative and alternate from each County Board of Commissioners in this agreement. During 2004, Grant County did not contribute to the Joint Powers Board.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Minnesota River Basin (Continued)

Complete financial information can be obtained from:

Minnesota River Basin Joint Powers Board
Administration Building No. 14
600 East 4th Street
Chaska, Minnesota 55318

West Central Minnesota Drug Task Force

The West Central Minnesota Drug Task Force was established in 1996 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Becker, Clay, Douglas, Grant, Otter Tail, and Todd Counties, and the Cities of Alexandria, Breckenridge, Detroit Lakes, Fargo, Fergus Falls, Moorhead, Pelican Rapids, Perham, and Wahpeton. The Task Force's objectives are to detect, investigate, and apprehend controlled substance offenders in the six-county area.

Control of the West Central Minnesota Drug Task Force is vested in a Board of Directors. The Board of Directors consists of department heads or a designee from each participating full-time member agency. In the event of dissolution of the Task Force, the equipment will be divided and returned to the appropriate agencies. However, if only one agency terminates its agreement and the unit continues, all equipment will remain with the Task Force.

Douglas County in an agent capacity, reports the cash transactions of the West Central Minnesota Drug Task Force as an agency fund on its financial statements. Financing and equipment will be provided by the full-time and associate member agencies. Grant County provided \$3,500 to this organization in 2004.

Pomme de Terre River Association

The Pomme de Terre River Association Joint Powers Board was established August 11, 1981, by a joint powers agreement between Grant County and five other counties and their respective soil and water conservation districts. The agreement was made to develop and implement plans to protect property from damage of flooding; control

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Pomme de Terre River Association (Continued)

erosion of land; protect streams and lakes from sedimentation and pollution; and maintain or improve the quality of water in the streams, lakes, and ground water lying within the boundaries of the watershed of the Pomme de Terre River.

Administrative costs are apportioned equally to the soil and water conservation districts included in the Association based on actual costs.

Control of the Pomme de Terre River Association is vested in a Joint Powers Board, comprised of one representative of each of the County Board of Commissioners and one representative from each soil and water conservation district board of supervisors included within the agreement. During 2004, Grant County did not contribute any funds to the Joint Powers Board.

Complete financial information can be obtained from:

Pomme de Terre River Association Joint Powers Board
900 Roberts Street, Suite 104
Alexandria, Minnesota 56308

Prime West Central County-Based Purchasing Initiative

The Prime West Central County-Based Purchasing Initiative was established December 1998 by a joint powers agreement among Grant County and nine other counties under the authority of Minn. Stat. § 471.59. The purpose of this agreement is to plan and administer a multi-county-based purchasing program for medical assistance and general assistance medical care services and other health care programs as authorized by Minn. Stat. § 256B.692.

Control of the Prime West Central County-Based Purchasing Initiative is vested in a Joint Powers Board, comprising of one Commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the county he or she represents. In the event of termination of the joint powers agreement, all property purchased or owned pursuant to this agreement shall be sold and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional shares.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Prime West Central County-Based Purchasing Initiative (Continued)

Financing is provided by medical assistance and general assistance medical care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and by proportional contributions from member counties if necessary to cover operational costs. In 1999, Grant County provided \$30,000 in the form of an initial start-up loan to the Prime West Central County-Based Purchasing Initiative.

Douglas County acts as fiscal agent for the Prime West Central County-Based Purchasing Initiative and reports the cash transactions as an investment trust fund on its financial statements.

Complete financial information can be obtained from:

Prime West Central County-Based Purchasing Initiative
Douglas County Courthouse
305 - 8th Avenue West
Alexandria, Minnesota 56308

D. Jointly-Governed Organizations

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

Western Area City/County Co-Op

Grant County and 24 other cities and counties entered into a joint powers agreement to establish the Western Area City/County Co-Op (WACCO) Joint Powers Board, effective September 5, 1995, and empowered under Minn. Stat. § 471.59. The purpose of the Board is to establish a resource network that identifies common needs of the individual governmental units and reduces the financial burdens on each of its members through the cooperative sharing of existing resources. The management and control of WACCO is vested in a Board of Directors composed of a representative appointed by each member city and county.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

District IV Transportation Planning

Grant County and 13 other cities and counties entered into joint powers agreement to establish the District IV Transportation Planning Joint Powers Board, effective December 11, 1996, and empowered under Minn. Stat. § 471.59. The purpose of the Board is to develop a multi-modal transportation plan for the geographical jurisdiction of the member cities and counties. The Board is composed of 14 members, with one member appointed by each member city and county.

Grant County Child and Youth Council Collaborative

The Grant County Child and Youth Council Collaborative was established in 1998 under the authority of Minn. Stat. § 124D.23. The Collaborative includes Ashby Public School, Herman-Norcross Public School, West Central Area Schools, Grant County Public Health, Grant County Social Services, and West Central Minnesota Community Action, Inc. The Collaborative was formed as a family services collaborative for the purpose of providing coordinated child and family services and to create an integrated system of services for children and families with multiple and special needs.

Control of the Collaborative is vested in a collaborative governing board and an Executive Committee. The Board is composed of one member and alternate from each agency involved. The Board shall exercise revenue authority and approve the annual budget. The Executive Committee comprises the directors of Grant County Public Health, Grant County Social Services, and West Central Community Action, Inc.; the superintendents of Ashby, Herman-Norcross, and West Central Area Schools; a representative of the Grant County Department of Court Services; and a parent nominated from the area. The Executive Committee has policy oversight authority for integrated services design as well as authority over expenditures.

Any party may exercise a right to withdraw from the Grant County Child and Youth Council Collaborative by passage of a resolution by its governing body declaring its intent to withdraw and giving at least a 180-day notice. When a party exercises its option to withdraw, the party shall remain liable for fiscal obligation incurred prior to the effective date of the withdrawal. If the Collaborative is terminated, the Board shall continue to exist for the limited purpose of discharging the Collaborative's debts and liabilities, settling its affairs, and disposing of integrated fund assets, if any.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Grant County Child and Youth Council Collaborative (Continued)

Financing is provided by state and federal grants and contributions from the member parties. During 2004, the County did not contribute any funds to the Collaborative.

5. Component Unit Disclosures

A. Summary of Significant Accounting Policies

Reporting Entities

The Housing and Redevelopment Authority (HRA) of Grant County is a component unit of Grant County and is reported in a separate column in the County's financial statements to emphasize that the HRA is a legally separate entity from Grant County. The HRA operates as a public agency created by Grant County under the Minnesota Housing and Redevelopment Authority Act of 1947. The primary purpose is to provide housing and redevelopment services to the County. The governing body consists of a five-member Board of Commissioners appointed by the Grant County Board of Commissioners to serve five-year terms. The financial statements included are as of and for the year ended December 31, 2004.

Risk Management

The HRA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters for which the HRA carries commercial insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Estimates

The preparation of financial statements in conformity with the accounting practices generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

5. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Cash and Pooled Investments

The HRA maintains a cash pool that is used by all HRA funds. The HRA maintains all cash as bank deposits, certificates of deposit, or money market-type savings accounts.

Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The HRA maintains a threshold level of \$5,000 or more for capitalizing assets.

Capital assets are depreciated using straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed by the HRA, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

Capital assets not depreciated include land and construction in progress, if any.

B. Detailed Notes on All Funds

Deposits

In accordance with Minnesota statutes, the HRA maintains deposits at those depository banks authorized by the Board of Directors. All such depositories are members of the Federal Reserve System.

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

As of December 31, 2004, the carrying value of the HRA's deposits was \$521,775, and the bank balance was \$530,991. All of the bank balance was covered by federal depository insurance or by collateral held by the HRA's agent in the HRA's name, and none was uninsured or uncollateralized.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes on All Funds (Continued)

Investments

Minnesota statutes authorize the HRA to invest in obligations of the U.S. Treasury investments and U.S. agencies, bankers' acceptances, certain repurchase agreements, and commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record.

The HRA's investments are categorized as either (1) insured or registered or for which the securities are held by the government or its agent in the government's name; (2) uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the government's name; or (3) uninsured and unregistered for which the securities are held by the counterparty, or by its trust department or agent but not in the government's name. The HRA held no investments requiring classification at December 31, 2004.

Capital Assets

The HRA's capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Valuation Adjustment	Additions	Removals	Ending Balance
Capital assets not depreciated					
Land	\$ 512,266	\$ (2,555)	\$ 12,933	\$ -	\$ 522,644
Capital assets depreciated					
Building	\$ 3,792,765	\$ (90,113)	\$ 183,918	\$ -	\$ 3,886,570
Equipment, furniture, and Fixtures	320,165	(201,558)	13,128	-	131,735
Total capital assets depreciated	\$ 4,112,930	\$ (291,671)	\$ 197,046	\$ -	\$ 4,018,305
Less: accumulated depreciation	1,940,126	(146,926)	129,128	-	1,922,328
Total capital assets depreciated, net	\$ 2,172,804	\$ (144,745)	\$ 67,918	\$ -	\$ 2,095,977
Total	\$ 2,685,070	\$ (147,300)	\$ 80,851	\$ -	\$ 2,618,621

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes on All Funds

Capital Assets (Continued)

As of January 1, 2004, the HRA was required to account for its capital assets under the guidelines of Governmental Accounting Standards Board (GASB) Statement 34. The HRA has adopted a capitalization threshold of \$5,000. The effect of this change in accounting policy is shown in the valuation adjustment column of the previous table.

Depreciation expense was charged to functions/programs of the discretely presented component units as follows:

Public Housing Program	\$	97,173
Market Rate Rental		31,955
Total Depreciation Expense	\$	129,128

Long-Term Debt

Long-term debt activity for the HRA for the year ended December 31, 2004, was as follows:

Type of Indebtedness	Beginning Balance	Additions	Reductions	Ending Balance
Market Rate Rental				
1999 Housing Development Bonds	\$ 1,145,000	\$ -	\$ 20,000	\$ 1,125,000
2002 GMHF Loan	101,500	-	-	101,500
Total Long-Term Debt	\$ 1,246,500	\$ -	\$ 20,000	\$ 1,226,500

The HRA has no principal payments due within one year.

Long-term debt payable at December 31, 2004, consisted of the following issues:

	Original Issue Amount	Final Maturity	Interest Rate (%)	Outstanding Balance December 31, 2004
Market Rate Rental				
1999 Housing Development Bonds	\$ 1,225,000	2029	4.00 - 5.25	\$ 1,125,000
2002 GMHF Loan	101,500	2027	-	101,500
Total Long-Term Debt	\$ 1,326,500			\$ 1,226,500

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes on All Funds

Long-Term Debt (Continued)

The annual minimum payment requirements for bonds and loans outstanding as of December 31, 2004, are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ -	\$ 57,372
2006	-	57,373
2007	-	57,372
2008	100,000	57,373
2009 - 2013	155,000	255,722
2014 - 2018	200,000	215,038
2019 - 2023	145,000	160,432
2024 - 2028	101,500	137,813
2029 - 2033	525,000	27,563
Total	<u>\$ 1,226,500</u>	<u>\$ 1,026,058</u>

Managed Properties

The HRA manages three properties for others, collects the rent, and pays the bills. A summary of the activity for the year ended December 31, 2004, for each of the properties is as follows:

	<u>Hoffman Center</u>	<u>Ashby Apartment Association</u>	
		<u>#1</u>	<u>#2</u>
Beginning Equity Balance	\$ 2,920	\$ 91,660	\$ 69,182
Revenues	20,904	29,610	32,094
Expenses	<u>(21,313)</u>	<u>(30,196)</u>	<u>(29,457)</u>
Ending Equity Balance	<u>\$ 2,511</u>	<u>\$ 91,074</u>	<u>\$ 71,819</u>
Amount included in disbursements paid to the HRA	<u>\$ 2,840</u>	<u>\$ 3,520</u>	<u>\$ 3,840</u>

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes on All Funds (Continued)

Market Rate Rental Segment Information

Summary financial information for the market rate rental fund is presented below.

Operating receipts	\$	114,040
Depreciation expense		31,955
Operating income		38,036
Net loss		(18,162)
Capital assets		
Valuation adjustment		(294,227)
Additions		209,979
Net working capital		113,868
Total assets		1,108,515
Total equity		(137,910)

C. Defined Benefit Pension Plan

Plan Description

The Principal Mutual Life Insurance Company Retirement Plan (Plan) is a defined contribution retirement plan covering essentially all employees of the various participating employers. Since the participating employers are all government units, the Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, except for the contribution limitations of Section 415. The payroll for employees covered by the Plan for the year ended December 31, 2004, was \$64,164; the HRA's total payroll was \$92,721.

The Plan and Trust are qualified under Section 401(a) of the Internal Revenue Code and their income is exempt from taxation under Section 501(a) of the Code.

The Plan is funded by employer contributions and, in some cases, employee contributions. The rates of contributions are determined by the various adoption agreements of the participating employers.

Terminated or retiring participants are entitled to certain benefits including the full amount of their contributions to the Plan as well as earnings on their contributions. In addition to the amount of their contribution, each participant is entitled to the portion of the employer's contributions in which he or she has a vested interest. Vesting provisions

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

5. Component Unit Disclosures

C. Defined Benefit Pension Plan

Plan Description (Continued)

are determined in accordance with the participating employers' adoption agreement. If a participating employee shall be determined to be totally and permanently disabled, or if an active participating employee should die prior to retirement, then the employee or their designated beneficiary shall be entitled to the full value of the participant's account. Benefits are payable in the form of lump sum cash settlements or purchased annuities, depending upon the election of the participant and the nature of his termination or retirement.

If the Plan is terminated or contributions under the Plan are discontinued, the participating employees are entitled to benefits accrued to the date of such termination or discontinuance to the extent funded and/or to the amounts credited to the employees' accounts.

Contributions Required and Contributions Made

Covered employees contribute fixed percentages of their gross earnings to the Plan. The HRA makes monthly contributions to the pension plan. Current contribution rates are as follows:

Employee	-
Employer	12.00%

Total contributions made during the fiscal year ended December 31, 2004, amounted to \$7,752, all of which was made by the HRA. This contribution is equal to the required contribution.

D. Prior Period Adjustments

The Section 8 Voucher Program annual contribution contract C-4080 had certain liabilities forgiven by the U.S. Department of Housing and Urban Development (HUD). These changes are reported on HUD Form 52681. The effect of this change was to increase ending fund balance by \$2,427.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

5. Component Unit Disclosures

D. Prior Period Adjustments (Continued)

Implementation of GASB Statement 34 resulted in valuation adjustments in the Public Housing Program and Market Rate Rental Funds. Adjustments were made to capital assets and other accounts to comply with the capitalization policy used for reporting purposes. The adjustments resulted in a decrease of net assets in the Public Housing Program and the Market Rate Rental Funds of \$89,516 and \$57,785, respectively.

Net Assets - January 1, 2004, as previously reported	\$ 1,837,021
Adjustments	
Liabilities forgiven	2,427
Valuation adjustments	
Public Housing Program	(89,516)
Market Rate Rental	(57,785)
	<hr/>
Net Assets - January 1, 2004, restated	<u>\$ 1,692,147</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,490,550	\$ 1,490,550	\$ 1,463,711	\$ (26,839)
Licenses and permits	35	35	3,459	3,424
Intergovernmental	632,940	632,940	655,963	23,023
Charges for services	216,624	216,624	259,534	42,910
Gifts and contributions	-	-	185	185
Investment income	40,000	40,000	44,925	4,925
Miscellaneous	110,875	110,875	108,151	(2,724)
Total Revenues	\$ 2,491,024	\$ 2,491,024	\$ 2,535,928	\$ 44,904
Expenditures				
Current				
General government				
Commissioners	\$ 133,469	\$ 133,469	\$ 164,035	\$ (30,566)
County coordinator	90,193	90,193	97,139	(6,946)
Personnel	66,696	66,696	56,430	10,266
County auditor	178,214	178,214	156,332	21,882
License bureau	75,140	75,140	72,938	2,202
County treasurer	123,037	123,037	104,321	18,716
County assessor	165,393	165,393	148,587	16,806
Elections	14,400	14,400	9,719	4,681
Accounting and auditing	27,000	27,000	26,959	41
Data processing	-	-	78,519	(78,519)
Attorney	126,288	126,288	121,159	5,129
Law library	-	-	20,409	(20,409)
Recorder	134,974	134,974	136,911	(1,937)
Land management	106,258	106,258	117,352	(11,094)
Buildings and plant	80,022	80,022	82,530	(2,508)
Veterans service officer	12,608	12,608	11,864	744
Other	64,833	64,833	102,983	(38,150)
Total general government	\$ 1,398,525	\$ 1,398,525	\$ 1,508,187	\$ (109,662)
Public safety				
Sheriff	\$ 724,795	\$ 724,795	\$ 730,185	\$ (5,390)
Boat and water safety	-	-	943	(943)
Emergency management	6,530	6,530	35,583	(29,053)
E-911 system	39,260	39,260	21,708	17,552
Coroner	6,000	6,000	6,606	(606)
Community corrections	85,000	85,000	113,356	(28,356)
Total public safety	\$ 861,585	\$ 861,585	\$ 908,381	\$ (46,796)

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Culture and recreation				
Historical society	\$ 6,888	\$ 6,888	\$ 6,888	\$ -
County fair	17,167	17,167	17,167	-
Regional library	37,539	37,539	37,539	-
Total culture and recreation	\$ 61,594	\$ 61,594	\$ 61,594	\$ -
Conservation of natural resources				
Cooperative extension	\$ 99,747	\$ 99,747	\$ 101,388	\$ (1,641)
Soil and water conservation	47,460	47,460	47,460	-
Water planning	22,113	22,113	13,512	8,601
Total conservation of natural resources	\$ 169,320	\$ 169,320	\$ 162,360	\$ 6,960
Economic development				
Economic development	\$ 35,000	\$ 35,000	\$ 35,000	\$ -
Debt service				
Interest	\$ -	\$ -	\$ 2,861	\$ (2,861)
Total Expenditures	\$ 2,526,024	\$ 2,526,024	\$ 2,678,383	\$ (152,359)
Net Change in Fund Balance	\$ (35,000)	\$ (35,000)	\$ (142,455)	\$ (107,455)
Fund Balance - January 1	1,258,180	1,258,180	1,258,180	-
Fund Balance - December 31	\$ 1,223,180	\$ 1,223,180	\$ 1,115,725	\$ (107,455)

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 508,257	\$ 508,257	\$ 504,145	\$ (4,112)
Intergovernmental	2,474,714	2,474,714	2,228,954	(245,760)
Charges for services	12,000	12,000	64,223	52,223
Miscellaneous	64,000	64,000	37,761	(26,239)
Total Revenues	\$ 3,058,971	\$ 3,058,971	\$ 2,835,083	\$ (223,888)
Expenditures				
Current				
Highways and streets				
Administration	\$ 280,411	\$ 280,411	\$ 214,708	\$ 65,703
Maintenance	801,861	801,861	670,053	131,808
Construction	969,280	969,280	1,199,254	(229,974)
Equipment maintenance and shop	721,813	721,813	607,478	114,335
Materials and services for resale	-	-	20,565	(20,565)
Total highways and streets	\$ 2,773,365	\$ 2,773,365	\$ 2,712,058	\$ 61,307
Intergovernmental				
Highways and streets	-	-	163,533	(163,533)
Total Expenditures	\$ 2,773,365	\$ 2,773,365	\$ 2,875,591	\$ (102,226)
Net Change in Fund Balance	\$ 285,606	\$ 285,606	\$ (40,508)	\$ (326,114)
Fund Balance - January 1	686,016	686,016	686,016	-
Increase (decrease) in reserved for inventories	-	-	34,060	34,060
Fund Balance - December 31	\$ 971,622	\$ 971,622	\$ 679,568	\$ (292,054)

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 594,566	\$ 594,566	\$ 501,726	\$ (92,840)
Intergovernmental	1,322,265	1,322,265	1,399,221	76,956
Charges for services	25,889	25,889	40,030	14,141
Gifts and contributions	-	-	26,000	26,000
Miscellaneous	-	-	95,814	95,814
Total Revenues	\$ 1,942,720	\$ 1,942,720	\$ 2,062,791	\$ 120,071
Expenditures				
Current				
Human services				
Income maintenance	\$ 441,963	\$ 441,963	\$ 545,470	\$ (103,507)
Social services	1,500,757	1,500,757	1,579,509	(78,752)
Total Expenditures	\$ 1,942,720	\$ 1,942,720	\$ 2,124,979	\$ (182,259)
Net Change in Fund Balance	\$ -	\$ -	\$ (62,188)	\$ (62,188)
Fund Balance - January 1	727,895	727,895	727,895	-
Fund Balance - December 31	\$ 727,895	\$ 727,895	\$ 665,707	\$ (62,188)

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and certain special revenue funds. 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 Grant County Auditor 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 fund level. During the year, the Board made no supplemental budgetary appropriations.

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

2. Excess of Expenditures over Appropriations

The following major funds had expenditures in excess of budget for the year ended December 31, 2004:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 2,678,383	\$ 2,526,024	\$ 152,359
Road and Bridge Special Revenue Fund	2,875,591	2,773,365	102,226
Human Services Special Revenue Fund	2,124,979	1,942,720	182,259

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SUPPLEMENTARY INFORMATION

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Ditch Fund accounts for the financing and related costs of all County ditches.

The Public Health Nurse Fund is used to account for providing nursing service care to the elderly and other residents of the County. Financing is provided by health care service grants, County contributions, and user service charges.

The Solid Waste Fund accounts for the financing and costs related to the collection and disposal of solid waste and the County recycling activities.

The Transportation Fund is used to account for providing transportation services to residents of the County. Financing is provided by grants, County contributions, and user service charges.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for the capital improvements made using bond proceeds.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	Ditch	Special Public Health Nurse
<u>Assets</u>		
Cash and pooled investments	\$ 313,473	\$ -
Petty cash and change funds	-	50
Taxes receivable		
Delinquent	-	4,252
Special assessments receivable		
Delinquent	295	-
Accounts receivable	-	1,883
Accrued interest receivable	206	-
Due from other funds	-	-
Due from other governments	-	2,358
Total Assets	\$ 313,974	\$ 8,543
<u>Liabilities and Fund Balance</u>		
Liabilities		
Accounts payable	\$ 117	\$ 250
Due to other funds	667	1,621
Due to other governments	-	771
Deferred revenue - unavailable	130	3,362
Total Liabilities	\$ 914	\$ 6,004
Fund Balance		
Unreserved		
Designated for debt service	\$ 70,000	\$ -
Undesignated	243,060	2,539
Total Fund Balance	\$ 313,060	\$ 2,539
Total Liabilities and Fund Balance	\$ 313,974	\$ 8,543

Statement 1

Revenue Funds			Capital Projects Fund	Total Nonmajor Governmental Funds
Solid Waste	Transportation			
\$ 14,496	\$ 75,232	\$ 162,655	\$ 565,856	
-	-	-	50	
5,631	-	-	9,883	
-	-	-	295	
-	1,981	-	3,864	
-	-	-	206	
-	1,387	-	1,387	
42,928	3,379	-	48,665	
\$ 63,055	\$ 81,979	\$ 162,655	\$ 630,206	
\$ 1,650	\$ 9,980	\$ -	\$ 11,997	
-	-	130,550	132,838	
8,134	-	-	8,905	
14,682	927	-	19,101	
\$ 24,466	\$ 10,907	\$ 130,550	\$ 172,841	
\$ -	\$ -	\$ -	\$ 70,000	
38,589	71,072	32,105	387,365	
\$ 38,589	\$ 71,072	\$ 32,105	\$ 457,365	
\$ 63,055	\$ 81,979	\$ 162,655	\$ 630,206	

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Ditch	Special Public Health Nurse
Revenues		
Taxes	\$ -	\$ 134,934
Special assessments	89,132	-
Licenses and permits	-	-
Intergovernmental	-	103,705
Charges for services	-	56,125
Investment income	2,251	-
Miscellaneous	-	6,837
	\$ 91,383	\$ 301,601
Expenditures		
Current		
Sanitation	\$ -	\$ -
Human services	-	-
Health	-	419,224
Conservation of natural resources	21,374	-
Capital outlay	-	-
Debt service		
Principal retirement	70,000	-
Interest	5,192	-
Bond issuance costs	-	-
	\$ 96,566	\$ 419,224
Excess of Revenues Over (Under) Expenditures	\$ (5,183)	\$ (117,623)
Other Financing Sources (Uses)		
Bonds issued	-	-
Net Change in Fund Balance	\$ (5,183)	\$ (117,623)
Fund Balance - January 1	318,243	120,162
Fund Balance - December 31	\$ 313,060	\$ 2,539

Statement 2

Revenue Funds		Capital Projects Fund	Total Nonmajor Governmental Funds
Solid Waste	Transportation		
\$ -	\$ -	\$ -	\$ 134,934
63,296	-	-	152,428
52	-	-	52
55,434	89,869	-	249,008
387,219	72,608	-	515,952
-	-	-	2,251
-	531	-	7,368
\$ 506,001	\$ 163,008	\$ -	\$ 1,061,993
\$ 510,076	\$ -	\$ -	\$ 510,076
-	140,249	-	140,249
-	-	-	419,224
-	-	-	21,374
-	-	171,550	171,550
-	-	-	70,000
-	-	-	5,192
-	-	6,345	6,345
\$ 510,076	\$ 140,249	\$ 177,895	\$ 1,344,010
\$ (4,075)	\$ 22,759	\$ (177,895)	\$ (282,017)
-	-	210,000	210,000
\$ (4,075)	\$ 22,759	\$ 32,105	\$ (72,017)
42,664	48,313	-	529,382
\$ 38,589	\$ 71,072	\$ 32,105	\$ 457,365

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
PUBLIC HEALTH NURSE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 137,873	\$ 137,873	\$ 134,934	\$ (2,939)
Intergovernmental	147,057	147,057	103,705	(43,352)
Charges for services	94,881	94,881	56,125	(38,756)
Miscellaneous	-	-	6,837	6,837
Total Revenues	\$ 379,811	\$ 379,811	\$ 301,601	\$ (78,210)
Expenditures				
Current				
Health				
Nursing services	379,811	379,811	419,224	(39,413)
Net Change in Fund Balance	\$ -	\$ -	\$ (117,623)	\$ (117,623)
Fund Balance - January 1	120,162	120,162	120,162	-
Fund Balance - December 31	\$ 120,162	\$ 120,162	\$ 2,539	\$ (117,623)

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
TRANSPORTATION SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 86,573	\$ 86,573	\$ 89,869	\$ 3,296
Charges for services	77,210	77,210	72,608	(4,602)
Miscellaneous	-	-	531	531
Total Revenues	\$ 163,783	\$ 163,783	\$ 163,008	\$ (775)
Expenditures				
Current				
Human services				
Transportation	150,924	150,924	140,249	10,675
Net Change in Fund Balance	\$ 12,859	\$ 12,859	\$ 22,759	\$ 9,900
Fund Balance - January 1	48,313	48,313	48,313	-
Fund Balance - December 31	\$ 61,172	\$ 61,172	\$ 71,072	\$ 9,900

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

AGENCY FUNDS

The School Fund accumulates the schools' share of light and power taxes and penalties, which are apportioned according to the average resident pupil attendance.

The State Revenue Fund accounts for the collection and payment of money due to the State of Minnesota.

The Taxes and Penalties Fund is used to account for the collection and payment to the various County funds and taxing districts of taxes and penalties collected.

The Towns and Cities Fund accounts for the collection and payment of funds due to towns and cities.

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>SCHOOL FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,191,234	\$ 1,191,234	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,191,234	\$ 1,191,234	\$ -
 <u>STATE REVENUE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 652	\$ 14,970	\$ 15,411	\$ 211
Accounts receivable	1,315	-	1,315	-
Total Assets	\$ 1,967	\$ 14,970	\$ 16,726	\$ 211
<u>Liabilities</u>				
Due to other governments	\$ 1,967	\$ 14,970	\$ 16,726	\$ 211
 <u>TAXES AND PENALTIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 146,277	\$ 6,107,218	\$ 6,142,913	\$ 110,582
<u>Liabilities</u>				
Unapportioned taxes and special assessments	\$ 69,011	\$ -	\$ 69,011	\$ -
Due to other governments	73,962	6,107,218	6,070,598	110,582
Prepaid taxes	3,304	-	3,304	-
Total Liabilities	\$ 146,277	\$ 6,107,218	\$ 6,142,913	\$ 110,582

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

***Statement 3
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOWNS AND CITIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 11,883	\$ 1,619,496	\$ 1,615,348	\$ 16,031
<u>Liabilities</u>				
Due to other governments	\$ 11,883	\$ 1,619,496	\$ 1,615,348	\$ 16,031
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 158,812	\$ 8,932,918	\$ 8,964,906	\$ 126,824
Accounts receivable	1,315	-	1,315	-
Total Assets	\$ 160,127	\$ 8,932,918	\$ 8,966,221	\$ 126,824
<u>Liabilities</u>				
Unapportioned taxes and special assessments	\$ 69,011	\$ -	\$ 69,011	\$ -
Due to other governments	87,812	8,932,918	8,893,906	126,824
Prepaid taxes	3,304	-	3,304	-
Total Liabilities	\$ 160,127	\$ 8,932,918	\$ 8,966,221	\$ 126,824

OTHER SCHEDULES

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2004**

	Assets				Accounts Payable
	Cash	Special Assessments Delinquent	Accrued Interest Receivable	Total	
County Ditches					
No. 1	\$ 7,637	\$ -	\$ 4	\$ 7,641	\$ -
No. 3	25,254	-	13	25,267	117
No. 5	4,066	-	-	4,066	-
No. 6	2,180	-	-	2,180	-
No. 8	32,093	-	16	32,109	-
No. 9	15,738	177	8	15,923	-
No. 11	1,510	-	-	1,510	-
No. 13	2,764	-	-	2,764	-
No. 15	3,626	-	-	3,626	-
No. 21	11,648	-	7	11,655	-
No. 22	1,720	-	-	1,720	-
No. 23	8,341	-	4	8,345	-
No. 29	39,029	80	16	39,125	-
No. 30	2,056	-	-	2,056	-
No. 31	1,142	-	-	1,142	-
No. 32	10,561	-	6	10,567	-
No. 33	27	-	-	27	-
Consolidated					
No. 2	22,771	-	12	22,783	-
Judicial Ditches					
No. 1	784	38	-	822	-
No. 2	120,526	-	120	120,646	-
Total	\$ 313,473	\$ 295	\$ 206	\$ 313,974	\$ 117

Schedule 6

Liabilities			Fund Balances			Total Liabilities and Fund Balances
Due to Other Funds	Deferred Revenue	Total	Designated for Debt Service	Undesignated	Total	
\$ 41	\$ -	\$ 41	\$ -	\$ 7,600	\$ 7,600	\$ 7,641
26	-	143	-	25,124	25,124	25,267
134	-	134	-	3,932	3,932	4,066
25	-	25	-	2,155	2,155	2,180
34	-	34	-	32,075	32,075	32,109
219	12	231	-	15,692	15,692	15,923
-	-	-	-	1,510	1,510	1,510
-	-	-	-	2,764	2,764	2,764
33	-	33	-	3,593	3,593	3,626
14	-	14	-	11,641	11,641	11,655
-	-	-	-	1,720	1,720	1,720
58	-	58	-	8,287	8,287	8,345
34	80	114	-	39,011	39,011	39,125
-	-	-	-	2,056	2,056	2,056
-	-	-	-	1,142	1,142	1,142
24	-	24	-	10,543	10,543	10,567
-	-	-	-	27	27	27
-	-	-	-	22,783	22,783	22,783
-	38	38	-	784	784	822
25	-	25	70,000	50,621	120,621	120,646
\$ 667	\$ 130	\$ 914	\$ 70,000	\$ 243,060	\$ 313,060	\$ 313,974

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Schedule 7

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2004**

Shared Revenue

State

Highway users tax	\$	2,032,369
County program aid		509,252
PERA rate reimbursement		15,868
Disparity reduction aid		6,168
Police aid		25,367
Enhanced 911		37,699
Market value credit		313,051
		313,051

Total Shared Revenue **\$ 2,939,774**

Reimbursement for Services

Minnesota Department of Human Services	\$	525,440
		525,440

Payments

Local

Local share of construction	\$	26,277
Payments in lieu of taxes		32,599
		32,599

Total Payments **\$ 58,876**

Grants

State

Minnesota Department/Board of		
Corrections	\$	12,231
Public Safety		485
Transportation		80,488
Health		30,946
Natural Resources		1,492
Human Services		547,098
Trial Courts		18,964
Environmental Assistance		55,434
Pollution Control Agency		10,312
Peace Officers Board		2,507
		2,507

Total State **\$ 759,957**

Federal

Department of		
Agriculture	\$	15,165
Interior		7,000
Transportation		9,381
Health and Human Services		192,445
Homeland Security		25,108
		25,108

Total Federal **\$ 249,099**

Total State and Federal Grants **\$ 1,009,056**

Total Intergovernmental Revenue **\$ 4,533,146**

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Schedule 8

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-2 Segregation of Duties

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

We recommend that Grant County's management be aware of the lack of segregation of duties within the accounting functions and, if possible, implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

96-4 Computer Disaster Recovery Plan

The County's electronic data processing disaster recovery plan has never been tested. The disaster recovery plan was developed to reduce the County's risk of loss in the event of an emergency. The plan covers the County's IBM AS-400 but does not address the personal computers owned by the County.

Several years ago, Grant County signed an agreement with Stevens County for the use of a back-up computer. Since the original agreement, both Grant County and Stevens County have upgraded their systems, and they are no longer compatible.

We recommend Grant County review and update its computer disaster recovery plan. The plan should contain an agreement for the use of a back-up computer in the event of a disaster and address the issue of personal computers. The plan should be tested annually and the results documented to ensure its effectiveness.

Client's Response: (Director, Grant County Social Services)

Even though Grant County and Computer Professionals have both upgraded their AS400 systems since the development of Grant County's electronic data processing disaster recovery plan, I have had verbal discussions with Chad Swanson of Computer Professionals, Morris, Minnesota. The current systems are compatible, and a verbal agreement between the two parties exists.

This verbal agreement needs to be reduced to a signed agreement, and the recovery plan still needs to be tested.

00-1 Capital Asset Records

A physical inventory of the County's capital assets has not been performed in several years, and several items of road and bridge equipment do not have tags properly identifying them as County property.

We recommend that the County Board review and update its capital asset policies and procedures and the means of enforcement in order to strengthen internal control over capital assets. Written policies and procedures should, at a minimum, address the following guidelines and our findings to be consistent with generally accepted accounting principles.

- The County's administration should establish an ongoing system for identifying acquisitions and disposals of capital assets that meet the County's capitalization policy. Information on the County's system should be communicated to department heads who should be held responsible for the accuracy of additions, deletions, and changes in capital assets.
- An authorizing signature of a department head or designee should be required for any change in the capital asset records. Transfers of capital assets between departments should be evidenced by authorizing signatures from both departments involved. Additions, deletions, and changes to capital assets should be reported to a County official given the responsibility and authority to maintain and summarize the information on a timely basis throughout the year.
- Supporting documentation should accompany capital asset change forms. Invoices should support the additions to capital assets. Bills of sale, trade-in evidence, or auction summaries should support deletions of capital assets.

- All capital asset documentation should be filed in an orderly fashion by department, transaction type, or capital asset number for ease of access to the information. This measure will also assist the County with insurance-related activities.
- To maintain adequate accountability, assets should be tagged as County property with a specific identifying number, and the County should conduct a periodic physical inventory of capital assets and adjust its records accordingly.

PREVIOUSLY REPORTED ITEMS RESOLVED

Capital Asset Records (00-1)

The County maintained its capital asset records using several capital asset systems in several different locations.

Resolution

The County updated its capital asset software and now maintains all capital asset records on one central system within the County Auditor's Office.

Vacation Accrual (03-1)

Four County employees were allowed to accumulate more vacation than is permitted by their labor agreements.

Resolution

All County employees had allowable vacation balances at December 31, 2004.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. **MINNESOTA LEGAL COMPLIANCE**

ITEM ARISING THIS YEAR

04-1 **Public Health Nurse Special Revenue Fund Cash Deficit**

At December 31, 2004, the Public Health Nurse Special Revenue Fund had a cash deficit of \$8,375. After adjustment for \$6,754 in unapportioned taxes receivable, the Public Health Nurse Special Revenue Fund reported a \$1,621 cash deficit as due to other funds.

Minn. Stat. § 385.31 provides that payment of expenditures may be made only if money is available in the fund for that purpose and, if cash balances in the funds are insufficient, warrants are to be registered. Minn. Stat. § 385.32 provides for temporary fund transfers (six months or less) with approval of the County Board and County Auditor.

We recommend that the County use one of the options provided by Minnesota statutes to avoid cash overdrafts. The County Treasurer should not disburse monies which will cause a cash overdraft in a fund. The County Board should continue to monitor the financial activities of the Public Health Nurse Special Revenue Fund and provide for the effective operation of the fund.

PREVIOUSLY REPORTED ITEMS RESOLVED

Solid Waste Fund Cash Deficit (00-2)

At December 31, 2003, the Solid Waste Special Revenue Fund had a cash deficit of \$52,343.

Resolution

The Solid Waste Special Revenue Fund reported a positive cash balance at December 31, 2004.

Awarding Contract (03-2)

During 2003, the County awarded a contract to the second lowest bidder. The reasons for accepting the second lowest bid were not documented in the Board minutes.

Resolution

No instances of this occurred during 2004.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-10 Hospital Capital Assets

The Facility Lease Agreement with the Grant County Health Center (lessee) to lease the capital assets of the discontinued Grant County Hospital continues for a period not to exceed 20 years. According to the lease, the capital assets belonging to Grant County on hand at January 1, 1994, can be utilized by the lessee for the duration of the lease.

The lessee has the right to acquire capital assets or personal property under Section 1.18 of the lease for its sole ownership. Under Section 1.19, the lessee can replace any listed capital assets on hand at January 1, 1994, with a replacement item or any other capital asset that will then become the County's property. Because the capital assets covered by the lease as of January 1, 1994, may revert to the County at the expiration of the lease, the County should periodically update and inventory those capital assets covered by the lease.

In 2001, the Grant County Health Center provided a list of items purchased from 1994 through 2001. However, the list did not provide deletions or changes to those assets purchased as early as 1960 and listed as a County capital asset in prior years. As a result, it is likely that the hospital capital assets are overstated.

We recommend that the County Board annually update the lease agreement inventory and determine if those assets covered by the lease agreement are on hand.

01-3 Consolidated General Ledger

Although the County has taken steps to consolidate its general ledger, the consolidation is not yet complete. Separate general ledgers are maintained by the County Auditor and the Road and Bridge Department. Since October 2003, the necessary detail for the Social Services Department is included in the consolidated report; however, the Road and Bridge information rolls into one general ledger account for expenses and just a few accounts for revenues.

Accounting and reporting controls are more efficient and effective when all transactions are accounted for in one centralized general ledger. The County Board and management are better able to implement and maintain internal control over one central computer system than several decentralized systems. Security access controls to a centralized general ledger could be established so that departments and employees would have the same responsibility and authority for entering detailed transactions as is currently done with separate departmental general ledgers. Managers and employees should have access to assets or records based only on the specific needs commensurate with their positions. A centralized general ledger generally provides more uniformity and consistency in accounting for financial transactions. In addition, it allows senior management to have independent access to financial information for the entire County as needed to manage and monitor its financial operations.

We strongly recommend that the County Board provide the necessary directives to allow for the recording of all detailed financial transactions in a consolidated general ledger.

02-1

Budget Documentation

The County Board adopts a formal budget for its General Fund and the Road and Bridge, Human Services, Public Health Nurse, and Transportation Special Revenue Funds. The County adopts the budget in summary form. Although a formal budget is adopted, expenditure estimates and annual appropriations to the various operational funds within the County are not always clear. The detailed budgets provided for financial statement presentation agree to the levy amounts approved; however, we could not reconcile the detail of revenues and expenditures to the budget published in the official newspaper for the Road and Bridge Special Revenue Fund.

Generally accepted accounting principles and the County Financial Accounting and Reporting Standards recommend that expenditure estimates and the annual budget be appropriated to the various operational entities within the County and that line-item budget detail by fund should be available. The appropriations constitute maximum expenditure authorizations during the fiscal year and cannot legally be exceeded unless subsequently amended by the County Board. Good budget accounting requires: (1) an annual budget adopted by every governmental unit; (2) an accounting system that provides the basis for appropriate budgetary control; and (3) a common terminology and classification used consistently throughout the budgets,

accounts, and financial reports of each fund. The County Board should adopt an accurate budget, and it should be followed by the County. The adopted budget should be designed so that comparisons can be made between current year and budget year. Any amendments to the budget should be approved and documented in the official minutes.

We recommend that the County Board implement procedures to improve its budgetary accounting by including in the official minutes the amounts approved for each fund's revenues and expenditures budget. We also recommend that any changes to the original budget be approved and documented in the minutes by a formal County Board resolution.

PREVIOUSLY REPORTED ITEM RESOLVED

Capital Assets Accounting System (01-4)

To comply with Governmental Accounting Standards Board (GASB) Statement 34, we recommended the County establish accounting policies for capital assets, including capitalization thresholds, useful lives, and the designation of specific general ledger accounting codes to record the purchases and construction costs of capital assets.

Resolution

On October 5, 2005, the County Board adopted GASB Statement 34 policies related to capital assets and depreciation. The policies were adopted retroactive to January 1, 2004, and include capitalization thresholds and useful lives.

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PATRICIA ANDERSON
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
Grant County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Grant County as of and for the year ended December 31, 2004, and have issued our report thereon dated January 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the financial statements of the Housing and Redevelopment Authority of Grant County, a discretely presented component unit. Those financial statements were audited by other auditors, whose report thereon has been furnished to us. We also did not audit the hospital office furniture and equipment and machinery and automotive capital asset inventory reported as part of the governmental activities.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Grant County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could

adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 96-2, 96-4, and 00-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions indicated above is a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Grant County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 04-1.

This report is intended solely for the information and use of the Board of County Commissioners and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: January 5, 2006