

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**DOUGLAS COUNTY**  
**ALEXANDRIA, MINNESOTA**

YEAR ENDED DECEMBER 31, 2006

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

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

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

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

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

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

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

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

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

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

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

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**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**Year Ended December 31, 2006**



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

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**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2006

Office	Name	Term Expires
<b>Commissioners</b>		
1st District	Jerry Johnson	January 2009
2nd District	John Mingus <sup>(1)</sup>	January 2007
3rd District	Bev Bales	January 2009
4th District	Paul Anderson	January 2007
5th District	Dan Olson	January 2007
<b>Officers</b>		
<b>Elected</b>		
Attorney	Christopher Karpan	January 2007
Auditor/Treasurer	Thomas Reddick	January 2007
County Recorder	Darlene Chermak <sup>(2)</sup>	January 2007
Registrar of Titles	Darlene Chermak <sup>(2)</sup>	January 2007
Sheriff	William G. Ingebrigtsen <sup>(3)</sup>	January 2007
<b>Appointed</b>		
Assessor	A. Keith Albertsen	December 2008
Coordinator	William Schalow	Indefinite
Highway Engineer	David Robley	May 2008
Surveyor	Gary Stevenson	Indefinite
Veterans Service	Ray Kallstrom	September 2007
Medical Examiner	Mark Spanbauer, M.D.	Indefinite
Director - Social Services	Michael Woods	Indefinite
Director - Public Health	Sandy Tubbs	Indefinite

<sup>(1)</sup>Chair

<sup>(1)</sup>Norm Salto was elected as the new Commissioner effective January 2, 2007.

<sup>(2)</sup>Dawn Crouse was elected as the new Recorder and Registrar of Titles effective January 2, 2007.

<sup>(3)</sup>Troy Wolbersen was elected as the new Sheriff effective January 2, 2007.

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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

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

### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Douglas County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Douglas County, Minnesota, as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Douglas 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 Douglas County Hospital Operating Enterprise Fund, which is both a major fund and 96 percent, 97 percent, and 100 percent, respectively, of the assets, net assets, and revenues of the business-type activities. We also did not audit the financial statements of the Housing and Redevelopment Authority of Douglas County, which is 16 percent, 6 percent, and 36 percent, respectively, of the assets, net assets, and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Douglas County Hospital and the Housing and Redevelopment Authority of Douglas County, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 reports of other auditors provide a reasonable basis for our opinions.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2007, on our consideration of Douglas County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO  
STATE AUDITOR

December 14, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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

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**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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

**INTRODUCTION**

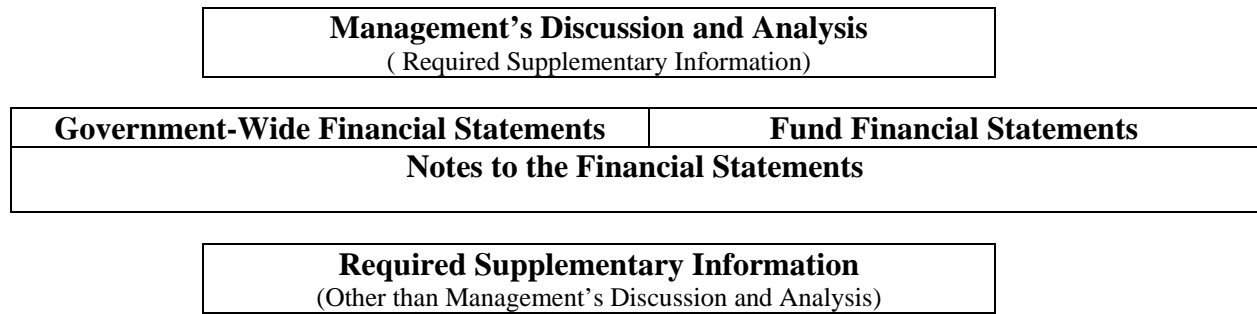
Douglas County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2006. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

**FINANCIAL HIGHLIGHTS**

- Governmental activities' total net assets are \$70,871,958, of which \$56,815,727 is invested in capital assets, net of related debt, and \$1,805,836 is restricted to specific purposes/uses by the County.
- Business-type activities have total net assets of \$44,153,153. Invested in capital assets, net of related debt, represents \$17,332,971 of the total; \$749,952 of the total business-type net assets is restricted for specific uses.
- Douglas County's net assets (governmental activities and business-type activities) total \$115,025,111 for the year ended December 31, 2006. Invested in capital assets, net of related debt, represents \$74,148,698 of the total; \$2,555,788 of the total net assets is restricted for specific uses, and \$38,320,625 is unrestricted.
- The net cost of Douglas County's governmental activities for the year ended December 31, 2006, was \$17,330,885. General property tax revenues and other revenue sources totaling \$20,986,818 funded the County's governmental net cost of \$17,330,885.
- Douglas County's governmental funds' combined fund balances totaled \$16,811,023 at December 31, 2006. This was an increase of \$360,897 over December 31, 2005.
- Douglas County's long-term debt decreased by \$1,258,309, or 8.5 percent, to \$13,477,253 as of December 31, 2006.

## OVERVIEW OF THE FINANCIAL STATEMENTS

Douglas County's MD&A report 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.



Douglas 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 Douglas County's finances. The County's fund financial statements follow these two government-wide financial statements. For governmental activities, these statements tell how Douglas 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. For proprietary activities, these statements provide detailed financial information relating to Douglas County Hospital's operations and facilities. 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 Douglas County as a whole and about its activities in a way that helps the reader determine whether Douglas 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 Douglas County's current year revenues and expenses regardless of when the County receives the revenue or pays the expense. These two statements report the County's net assets and changes in them. You can think of the County's net assets--the difference between assets and liabilities--as one way to measure Douglas 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 Douglas County.

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

- Governmental activities--Douglas 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, human services, health, culture and recreation, conservation of natural resources, and economic development. Douglas County finances the majority of these activities with local property taxes, state-paid aids, fees, charges for services, and federal and state grants.
- Business-type activities--The Douglas County Hospital charges a fee for services rendered to patients. Revenue is received from patients and third-party payers to help cover most of the costs to operate these facilities and pay for the services provided. The activities of the Hospital are reported here.
- Component units--Douglas County includes two separate legal entities in its report, Pope-Douglas Solid Waste and the Douglas County Housing and Redevelopment Authority. These entities are presented in a separate column. Although legally separate, these "component units" are important because the County is financially accountable for them.

### **Fund Financial Statements**

Douglas County's fund financial statements provide detailed information about the significant funds--not the County as a whole. Significant governmental and proprietary 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. Douglas County's two kinds of funds--governmental and proprietary--use different accounting methods.

- Governmental funds--Most of Douglas 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 that are 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 Douglas County. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.

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

## REPORTING THE COUNTY'S FIDUCIARY RESPONSIBILITIES

Douglas County is the trustee, or fiduciary, over assets, which can be used only for the trust beneficiaries based on the trust arrangement. The County reports all of its fiduciary activities in separate Statements of Fiduciary Net Assets. These activities have been excluded from the County's other financial statements because the County cannot use these assets to finance its operations. Douglas 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 and business-type activities.

**Table 1  
Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current and other assets	\$ 22,160,028	\$ 20,988,741	\$ 34,522,338	\$ 31,634,550	\$ 56,682,366	\$ 52,623,291
Capital assets	66,452,472	65,041,782	17,332,971	18,261,895	83,785,443	83,303,677
<b>Total Assets</b>	<b>\$ 88,612,500</b>	<b>\$ 86,030,523</b>	<b>\$ 51,855,309</b>	<b>\$ 49,896,445</b>	<b>\$ 140,467,809</b>	<b>\$ 135,926,968</b>
<b>Liabilities</b>						
Long-term liabilities	\$ 15,721,878	\$ 17,038,000	\$ 2,993,227	\$ 2,719,219	\$ 18,715,105	\$ 19,757,219
Other liabilities	2,018,664	1,776,498	4,708,929	4,520,152	6,727,593	6,296,650
<b>Total Liabilities</b>	<b>\$ 17,740,542</b>	<b>\$ 18,814,498</b>	<b>\$ 7,702,156</b>	<b>\$ 7,239,371</b>	<b>\$ 25,442,698</b>	<b>\$ 26,053,869</b>
<b>Net Assets</b>						
Invested in capital assets, net of debt	\$ 56,815,727	\$ 55,761,865	\$ 17,332,971	\$ 18,261,895	\$ 74,148,698	\$ 74,023,760
Restricted	1,805,836	1,446,716	749,952	731,052	2,555,788	2,177,768
Unrestricted	12,250,395	10,007,444	26,070,230	23,664,127	38,320,625	33,671,571
<b>Total Net Assets</b>	<b>\$ 70,871,958</b>	<b>\$ 67,216,025</b>	<b>\$ 44,153,153</b>	<b>\$ 42,657,074</b>	<b>\$ 115,025,111</b>	<b>\$ 109,873,099</b>

(Unaudited)

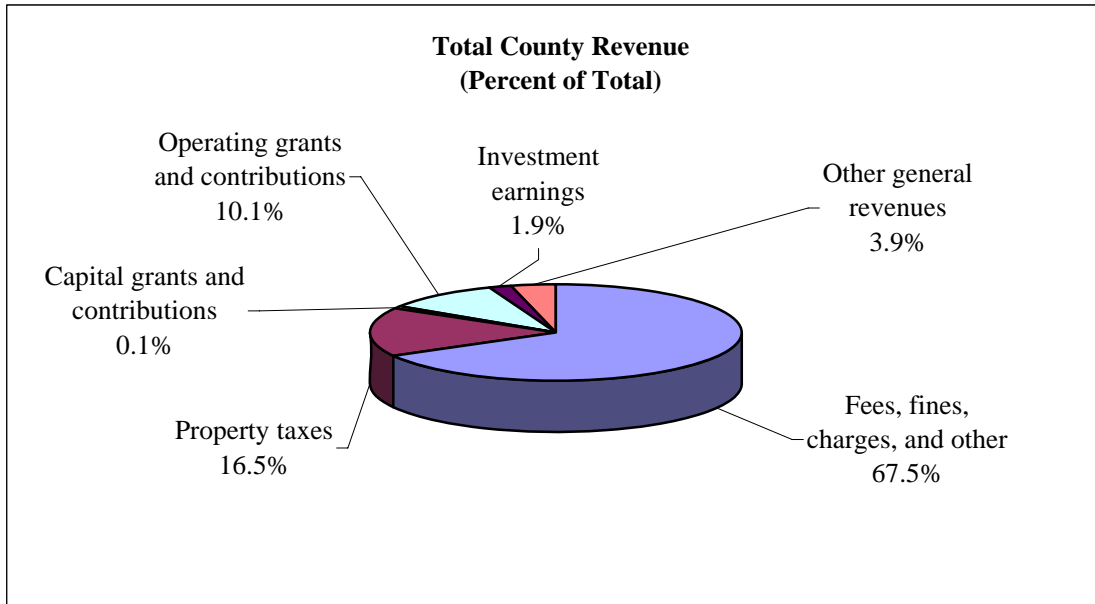
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Douglas County's total net assets as of December 31, 2006, total \$115,025,111. The governmental activities' unrestricted net assets totaling \$12,250,395 are available to finance the day-to-day operations of the governmental activities of Douglas County. The remaining unrestricted net assets totaling \$26,070,230 are available to finance the day-to-day operations of the business-type activities of the County.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
Program revenues						
Fees, charges, fines, and other	\$ 6,648,029	\$ 5,844,282	\$ 59,909,939	\$ 61,638,034	\$ 66,557,968	\$ 67,482,316
Operating grants and contributions	9,776,581	9,275,848	148,304	160,716	9,924,885	9,436,564
Capital grants and contributions	29,637	370,878	50,711	611,689	80,348	982,567
General revenues						
Property taxes	16,233,387	14,414,751	-	-	16,233,387	14,414,751
Other taxes	331,417	166,160	-	-	331,417	166,160
Grants and Contributions	3,254,276	3,135,279	-	-	3,254,276	3,135,279
Investment earnings	897,291	547,391	969,050	470,949	1,866,341	1,018,340
Other general Revenues	270,447	358,840	-	-	270,447	358,840
<b>Total Revenues</b>	<b>\$ 37,441,065</b>	<b>\$ 34,113,429</b>	<b>\$ 61,078,004</b>	<b>\$ 62,881,388</b>	<b>\$ 98,519,069</b>	<b>\$ 96,994,817</b>
<b>Expenses</b>						
General government	\$ 6,372,728	\$ 5,802,643	\$ -	\$ -	\$ 6,372,728	\$ 5,802,643
Public safety	6,548,176	5,720,109	-	-	6,548,176	5,720,109
Highways and streets	8,029,124	6,464,471	-	-	8,029,124	6,464,471
Human services	7,491,770	7,766,027	-	-	7,491,770	7,766,027
Health	2,817,832	2,780,477	-	-	2,817,832	2,780,477
Culture and recreation	1,396,025	1,217,758	-	-	1,396,025	1,217,758
Conservation of natural resources	579,769	542,815	-	-	579,769	542,815
Economic development	41,277	41,795	-	-	41,277	41,795
Interest	508,431	543,892	-	-	508,431	543,892
Hospital	-	-	59,581,925	59,541,942	59,581,925	59,541,942
<b>Total Expenses</b>	<b>\$ 33,785,132</b>	<b>\$ 30,879,987</b>	<b>\$ 59,581,925</b>	<b>\$ 59,541,942</b>	<b>\$ 93,367,057</b>	<b>\$ 90,421,929</b>
<b>Increase in Net Assets</b>	<b>\$ 3,655,933</b>	<b>\$ 3,233,442</b>	<b>\$ 1,496,079</b>	<b>\$ 3,339,446</b>	<b>\$ 5,152,012</b>	<b>\$ 6,572,888</b>
<b>Net Assets - January 1</b>	<b>67,216,025</b>	<b>63,982,583</b>	<b>42,657,074</b>	<b>39,317,628</b>	<b>109,873,099</b>	<b>103,300,211</b>
<b>Net Assets - December 31</b>	<b>\$ 70,871,958</b>	<b>\$ 67,216,025</b>	<b>\$ 44,153,153</b>	<b>\$ 42,657,074</b>	<b>\$ 115,025,111</b>	<b>\$ 109,873,099</b>

Douglas County's total revenues for the year ended December 31, 2006, were \$98,519,069. The total cost of the County's programs and services for the year ended December 31, 2006, was \$93,367,057. The net assets for the County's governmental activities increased by \$3,655,933, mainly due to construction of additional infrastructure, the purchase of voting equipment, the purchase of the Bullick property and the courthouse re-roofing project. Douglas County had a prior period adjustment for compensated absences due to a reinterpretation of the vesting method used to comply with Governmental Accounting Standards Board Statement 16.



### **Governmental Activities**

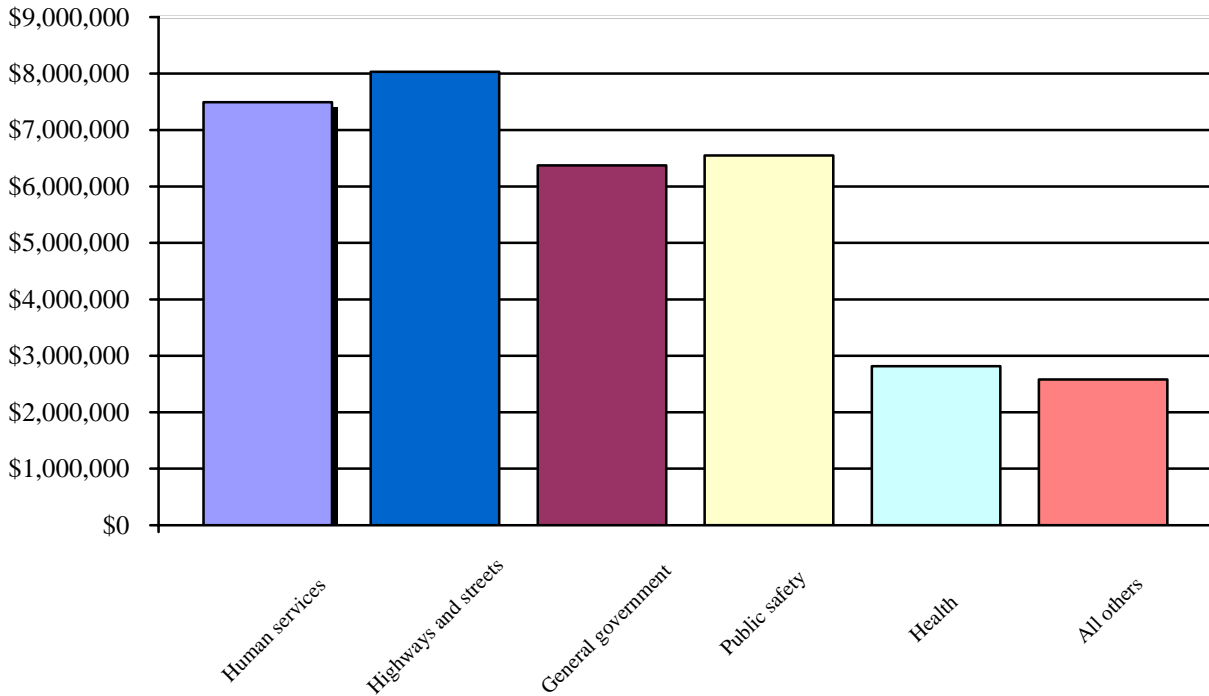
Revenues for Douglas County’s governmental activities for the year ended December 31, 2006, were \$37,441,065. The County’s cost for all governmental activities for the year ended December 31, 2006, was \$33,785,132. As shown in the Statement of Activities, the amount that Douglas County taxpayers ultimately financed for these governmental activities through local property taxation was \$16,233,387, because \$6,648,029 of the cost was paid by those who directly benefited from the programs, and \$9,806,218 was paid by other governments and organizations that subsidized certain programs with grants and contributions. Douglas County paid for the remaining “public benefit” portion of governmental activities with \$4,753,431 in general revenues, primarily grants and contributions, which were not restricted to specific programs or services, and with other revenues, such as interest income, mortgage registration tax, and deed tax.

Table 3 presents the cost of each of Douglas 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 Douglas County’s taxpayers by each of these functions. The net cost of services increased 12.6 percent in part due to the rising cost of energy and an increase in road construction costs.

**Table 3  
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Program Expenses				
Human services	\$ 7,491,770	\$ 7,766,027	\$ 3,346,359	\$ 3,479,558
Highways and streets	8,029,124	6,464,471	3,536,658	1,610,543
General government	6,372,728	5,802,643	4,243,202	4,247,184
Public safety	6,548,176	5,720,109	5,207,440	4,370,099
Health	2,817,832	2,780,477	(343,092)	141,630
All others	2,525,502	2,346,260	1,340,318	1,539,965
Total Program Expenses	\$ 33,785,132	\$ 30,879,987	\$ 17,330,885	\$ 15,388,979

**Governmental Activities Expenses**



## **Business-Type Activities**

Revenues of Douglas County's business-type activities (see Table 2) for the year ended December 31, 2006, were \$61,078,004; expenses were \$59,581,925, resulting in an increase in net assets of \$1,496,079. The primary component of this increase was increased revenues due to increased usage in surgical and emergency.

## **The County's Funds**

As Douglas County completed the year, its governmental funds as presented in the balance sheet, reported a combined fund balance of \$16,811,023, which is above last year's total of \$16,450,126. Included in this year's total fund balance is a surplus of \$7,595,341 in the County's General Fund. The majority of this amount, \$6,331,385, will be used to cash flow the first few months of 2007 until the current year tax collections begin. The General Fund's fund balance decreased by \$24,273. Public Health's fund balance increased \$961,393 due to an increase in case management and hospice services. The Capital Projects Fund's fund balance decreased by \$1,718,223 as a result of spending down the allotment from the 2005 sale of road reconstruction bonds. The Bonds and Interest Debt Service Fund's fund balance increased \$1,011,834, mostly due to a permanent transfer from the General Fund.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The Douglas County Board of Commissioners, over the course of a budget year, may amend/revise the County's General Fund budget; in 2006, the County Board of Commissioners made minor budgetary amendments/revisions. The minor changes made to the budget as originally adopted on December 20, 2005, by the County Board of Commissioners fall into one of three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts.

In the County's General Fund, the actual revenues were above the expected revenues by \$1,824,274, mostly due to receiving more shared revenue than anticipated and a greater than anticipated return on our investments. Total actual expenditures in the County's General Fund exceeded the budgeted expenditures by \$1,923,501. The General Government expenditure category exceeded the budgeted amount, mostly due to the purchase of new voting equipment funded by a Help America Vote Act (HAVA) grant. The Public Safety expenditure category exceeded the budgeted amount, mostly due to out of county prisoner boarding. The Culture and Recreation expenditure category exceeded the budgeted amount due to funds passed through to other entities, which were not included in Douglas County's 2006 budget. The Capital Outlay expenditure category exceeded the budgeted amount due to the courthouse re-roofing project, which was not included in Douglas County's 2006 budget.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2006, Douglas County had \$83,785,443 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). This amount represents a net increase (including additions and deductions) of \$481,766, or .0.6 percent, over last year. The increase in capital assets was mostly due to continued infrastructure construction and the courthouse re-roofing project.

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

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	\$ 2,719,031	\$ 2,547,967	\$ 56,930	\$ 56,930	\$ 2,775,961	\$ 2,604,897
Construction in progress	1,703,555	624,818	-	-	1,703,555	624,818
Buildings	14,362,193	14,893,662	11,342,256	12,329,668	25,704,449	27,223,330
Land and building improvements	156,345	169,287	423,566	405,731	579,911	575,018
Machinery, furniture, and equipment	3,150,645	2,734,766	5,510,219	5,469,566	8,660,864	8,204,332
Infrastructure	44,360,703	44,071,282	-	-	44,360,703	44,071,282
Totals	<u>\$ 66,452,472</u>	<u>\$ 65,041,782</u>	<u>\$ 17,332,971</u>	<u>\$ 18,261,895</u>	<u>\$ 83,785,443</u>	<u>\$ 83,303,677</u>

This year's major additions include continued infrastructure construction on various highways (both completed and construction in progress) and the courthouse re-roofing project.

The County's Capital Projects Fund has \$1,536,470 of available fund balance to be used to finance future capital expenditures. Planned projects for 2007 include road reconstruction, a salt/sand storage shed for Brandon and also one for Kensington, and miscellaneous equipment purchases. More detailed information about Douglas County's capital assets can be found in Note 3.A.3. to the Douglas County financial statements.

### Debt

As of December 31, 2006, Douglas County had \$13,477,253 in long-term obligations, compared with \$14,735,562 as of December 31, 2005--a decrease of 8.5 percent--as shown in Table 5.

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

Bonds Payable	Governmental Activities		Business-Type Activities		Primary Government	
	2006	2005	2006	2005	2006	2005
General Obligation Bonds	\$ 12,960,000	\$ 13,995,000	\$ -	\$ -	\$ 12,960,000	\$ 13,995,000
General Obligation Notes	420,000	650,000	-	-	420,000	650,000
Loans	97,253	90,562	-	-	97,253	90,562
Totals	<u>\$ 13,477,253</u>	<u>\$ 14,735,562</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,477,253</u>	<u>\$ 14,735,562</u>

(Unaudited)

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New debt resulted from a Sewer Clean Water Partnership with the State of Minnesota Pollution Control Agency in the amount of \$12,350.

Douglas County's rating from Moody's Investor Services is an "A1." The state limits the amount of net debt that a county can issue to two percent of the market value of all taxable property in the county. The County's outstanding net debt is significantly below this \$81,409,702 state-imposed limit.

Other obligations include capital leases and compensated absences. Douglas County's notes to the financial statements provide detailed information about the County's long-term liabilities.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

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

- Douglas County's net tax capacity rates have not seen significant change even though the overall net tax levy has continued to increase. This is due in great part to Douglas County's strong tax base. It has a strong seasonal, residential, commercial/industrial, and agricultural base. Keeping this tax base vital and healthy is very important to the County's overall financial health and condition.
- Douglas County's average unemployment rate for 2006 and 2005 remained constant at 3.8 percent. If the unemployment rate should increase, there could be an impact on the level of services requested by Douglas County residents. This information was taken from the Minnesota Department of Employment and Economic Development website for Douglas County unemployment statistics. This website changed the 2005 average from 3.6 to 3.8 percent.
- The 2007 net property tax levies are planned to increase 5.85 percent from 2006.
- Other factors the County took into consideration include:
  - planning for facility needs and the possibility of a jail expansion project;
  - land development and regulation issues; and
  - a greater demand for services, which has resulted from the growth that Douglas County has been experiencing.
- Reviewing revenue sources and considering cost-effective and efficient means for the delivery of Douglas County programs and services will influence the development of future budgets.

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

Douglas County's financial report provides citizens, taxpayers, customers, investors, and creditors with a general overview of Douglas 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 Tom Reddick, Douglas County Auditor/Treasurer (320-762-3077) or Char Rosenow, Assistant Auditor/Treasurer (320-762-2924), Douglas County Courthouse, 305 - 8th Avenue West, Alexandria, Minnesota 56308.

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**EXHIBIT 1**

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

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Cash and pooled investments	\$ 15,494,614	\$ 4,799,277	\$ 20,293,891	\$ 1,842,908
Petty cash and change funds	7,545	525	8,070	300
Departmental cash	674	39,691	40,365	-
Investments	2,325,715	2,623,649	4,949,364	5,352,878
Taxes receivable				
Current - net	356,300	-	356,300	-
Prior - net	70,827	-	70,827	-
Special assessments receivable				
Current - net	3,307	-	3,307	67,747
Prior - net	1,072	-	1,072	15,640
Noncurrent - net	712,895	-	712,895	-
Accounts receivable - net	325,931	11,906,966	12,232,897	423,916
Accrued interest receivable	135,104	12,310	147,414	46,618
Contracts receivable	10,888	-	10,888	-
Due from other governments	2,534,831	-	2,534,831	32,106
Loans receivable - net	-	-	-	270,865
Advances to other agencies	12,000	-	12,000	-
Deferred charges	58,420	-	58,420	5,098
Prepaid items	25,135	258,018	283,153	10,311
Inventories	84,770	1,194,828	1,279,598	-
Restricted assets				
Investments	-	-	-	1,549,764
Accrued interest receivable	-	-	-	2,695
Noncurrent assets				
Funds designated for capital improvements	-	13,174,480	13,174,480	-
Other assets	-	512,594	512,594	-
Capital assets				
Non-depreciable	4,422,586	56,930	4,479,516	349,119
Depreciable - net of accumulated depreciation	62,029,886	17,276,041	79,305,927	14,959,733
<b>Total Assets</b>	<b>\$ 88,612,500</b>	<b>\$ 51,855,309</b>	<b>\$ 140,467,809</b>	<b>\$ 24,929,698</b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**EXHIBIT 1  
(Continued)**

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

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Liabilities</b>				
Accounts payable	\$ 675,578	\$ 2,531,496	\$ 3,207,074	\$ 141,827
Salaries payable	627,606	2,177,433	2,805,039	58,853
Accrued payroll taxes	-	-	-	977
Contracts payable	225,038	-	225,038	-
Due to other governments	390,213	-	390,213	6,700
Accrued interest payable	97,556	-	97,556	52,422
Unearned revenue	2,673	-	2,673	-
Deposits held for others	-	-	-	13,305
Deferred credits	-	-	-	111,416
Long-term liabilities				
Due within one year	1,988,338	-	1,988,338	114,970
Due in more than one year	13,733,540	2,993,227	16,726,767	2,871,399
<b>Total Liabilities</b>	<b>\$ 17,740,542</b>	<b>\$ 7,702,156</b>	<b>\$ 25,442,698</b>	<b>\$ 3,371,869</b>
<b>Net Assets</b>				
Invested in capital assets - net of related debt	\$ 56,815,727	\$ 17,332,971	\$ 74,148,698	\$ 13,529,372
Restricted for				
General government	465,253	-	465,253	-
Public safety	191,999	-	191,999	-
Highways and streets	860,499	-	860,499	-
Culture and recreation	266,574	-	266,574	-
Conservation of natural resources	21,511	-	21,511	-
Postclosure	-	-	-	786,425
Housing and redevelopment	-	-	-	685,669
Cancer services	-	621,784	621,784	-
Capital acquisitions	-	128,168	128,168	-
Unrestricted	12,250,395	26,070,230	38,320,625	6,556,363
<b>Total Net Assets</b>	<b>\$ 70,871,958</b>	<b>\$ 44,153,153</b>	<b>\$ 115,025,111</b>	<b>\$ 21,557,829</b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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

	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>	<u>Program Revenues Operating Grants and Contributions</u>
<b>Functions/Programs</b>			
<b>Primary Government</b>			
<b>Governmental activities</b>			
General government	\$ 6,372,728	\$ 1,582,428	\$ 547,098
Public safety	6,548,176	825,130	515,606
Highways and streets	8,029,124	643,822	3,820,526
Sanitation	-	14,379	-
Human services	7,491,770	165,451	3,979,960
Health	2,817,832	2,592,250	568,674
Culture and recreation	1,396,025	141,978	242,079
Conservation of natural resources	579,769	682,591	102,638
Economic development	41,277	-	-
Interest	508,431	-	-
<b>Total governmental activities</b>	<b>\$ 33,785,132</b>	<b>\$ 6,648,029</b>	<b>\$ 9,776,581</b>
<b>Business-type activities</b>			
Hospital	59,581,925	59,909,939	148,304
<b>Total Primary Government</b>	<b>\$ 93,367,057</b>	<b>\$ 66,557,968</b>	<b>\$ 9,924,885</b>
<b>Component Units</b>			
Pope-Douglas Solid Waste Board	\$ 4,263,233	\$ 4,078,482	\$ 138,937
Housing and Redevelopment Authority	2,546,826	297,050	1,887,295
<b>Total Component Units</b>	<b>\$ 6,810,059</b>	<b>\$ 4,375,532</b>	<b>\$ 2,026,232</b>

**General Revenues**

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

**Total general revenues**

**Change in net assets**

**Net Assets - Beginning, as restated in Note 1.E.**

**Net Assets - Ending**

**EXHIBIT 2**

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets			Discretely Presented Component Units
	Primary Government		Total	
	Governmental Activities	Business-Type Activities		
\$ -	\$ (4,243,202)	\$ -	\$ (4,243,202)	
-	(5,207,440)	-	(5,207,440)	
28,118	(3,536,658)	-	(3,536,658)	
-	14,379	-	14,379	
-	(3,346,359)	-	(3,346,359)	
-	343,092	-	343,092	
-	(1,011,968)	-	(1,011,968)	
1,519	206,979	-	206,979	
-	(41,277)	-	(41,277)	
-	(508,431)	-	(508,431)	
<b>\$ 29,637</b>	<b>\$ (17,330,885)</b>	<b>\$ -</b>	<b>\$ (17,330,885)</b>	
50,711	-	527,029	527,029	
<b>\$ 80,348</b>	<b>\$ (17,330,885)</b>	<b>\$ 527,029</b>	<b>\$ (16,803,856)</b>	
\$ -				\$ (45,814)
-				(362,481)
<b>\$ -</b>				<b>\$ (408,295)</b>
	\$ 16,233,387	\$ -	\$ 16,233,387	\$ 286,118
	56,284	-	56,284	-
	275,133	-	275,133	-
	3,254,276	-	3,254,276	3,871
	897,291	969,050	1,866,341	284,476
	239,955	-	239,955	-
	30,492	-	30,492	-
	<b>\$ 20,986,818</b>	<b>\$ 969,050</b>	<b>\$ 21,955,868</b>	<b>\$ 574,465</b>
	<b>\$ 3,655,933</b>	<b>\$ 1,496,079</b>	<b>\$ 5,152,012</b>	<b>\$ 166,170</b>
	<b>67,216,025</b>	<b>42,657,074</b>	<b>109,873,099</b>	<b>21,391,659</b>
	<b>\$ 70,871,958</b>	<b>\$ 44,153,153</b>	<b>\$ 115,025,111</b>	<b>\$ 21,557,829</b>

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**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

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**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**EXHIBIT 3**

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

	<u>General</u>	<u>Public Works</u>	<u>Human Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 7,534,547	\$ 774,844	\$ 2,424,799	\$ 4,439,078	\$ 15,173,268
Petty cash and change funds	5,070	2,050	425	-	7,545
Undistributed cash in agency funds	163,024	40,505	54,419	50,815	308,763
Departmental cash	674	-	-	-	674
Investments	-	23,229	-	1,315,142	1,338,371
Taxes receivable					
Current	172,733	52,009	69,133	62,425	356,300
Prior	32,815	10,982	15,851	11,179	70,827
Special assessments receivable					
Current	-	-	-	3,307	3,307
Prior	180	199	-	693	1,072
Noncurrent	80,041	-	-	632,854	712,895
Accounts receivable	103,395	1,341	16,468	204,727	325,931
Accrued interest receivable	123,759	6	-	11,339	135,104
Contracts receivable	-	-	-	10,888	10,888
Due from other funds	21,345	81,145	5,061	11,877	119,428
Due from other governments	384,774	1,262,791	498,249	389,017	2,534,831
Inventories	-	84,770	-	-	84,770
Prepaid items	22,209	1,405	-	1,521	25,135
Advances to other funds	192,500	-	-	-	192,500
Advances to other agencies	12,000	-	-	-	12,000
<b>Total Assets</b>	<b>\$ 8,849,066</b>	<b>\$ 2,335,276</b>	<b>\$ 3,084,405</b>	<b>\$ 7,144,862</b>	<b>\$ 21,413,609</b>
<b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 261,145	\$ 74,974	\$ 288,838	\$ 50,621	\$ 675,578
Salaries payable	309,870	94,491	122,553	100,692	627,606
Contracts payable	25,724	199,314	-	-	225,038
Due to other funds	70,524	8,146	17,319	23,439	119,428
Due to other governments	43,305	5,470	328,673	12,765	390,213
Deferred revenue - unavailable	452,434	874,351	73,783	867,974	2,268,542
Deferred revenue - unearned	-	2,673	-	-	2,673
Compensated absences	90,723	-	-	10,285	101,008
Advance from other funds	-	-	-	192,500	192,500
<b>Total Liabilities</b>	<b>\$ 1,253,725</b>	<b>\$ 1,259,419</b>	<b>\$ 831,166</b>	<b>\$ 1,258,276</b>	<b>\$ 4,602,586</b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**EXHIBIT 3  
(Continued)**

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

	<b>General</b>	<b>Public Works</b>	<b>Human Services</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b><u>Liabilities and Fund Balances</u></b>					
<b>(Continued)</b>					
<b>Fund Balances</b>					
Reserved for					
Encumbrances	\$ 3,450	\$ 165,793	\$ -	\$ -	\$ 169,243
Inventories	-	84,770	-	-	84,770
Advances to other funds	192,500	-	-	-	192,500
State-aid highway projects	-	91,855	-	-	91,855
Sheriff honor guard	4,195	-	-	-	4,195
Law library	34,924	-	-	-	34,924
Recorder's equipment	222,078	-	-	-	222,078
Land records modernization	187,649	-	-	-	187,649
Sheriff's contingency	5,000	-	-	-	5,000
Enhanced 911	147,617	-	-	-	147,617
Gun permit funding	20,734	-	-	-	20,734
Sheriff's forfeited property	2,009	-	-	-	2,009
Attorney's forfeited property	20,602	-	-	-	20,602
Park dedication fee	108,301	-	-	-	108,301
Feedlots	16,121	-	-	-	16,121
Environmental mitigation	5,390	-	-	-	5,390
Random drug tests	10,482	-	-	-	10,482
Juvenile work program	1,962	-	-	-	1,962
Library fund drive	-	-	-	158,273	158,273
Unreserved					
Designated for future expenditures	12,000	23,229	-	-	35,229
Designated for cash flows	6,331,385	-	-	-	6,331,385
Designated for capital improvements	229,065	-	-	-	229,065
Designated for extension	3,886	-	-	-	3,886
Designated for medical insurance	23,991	-	-	-	23,991
Designated for section 125	12,000	-	-	-	12,000
Undesignated	-	710,210	2,253,239	-	2,963,449
Unreserved, reported in nonmajor					
Special revenue funds	-	-	-	2,299,247	2,299,247
Debt service funds	-	-	-	1,892,596	1,892,596
Capital projects funds	-	-	-	1,536,470	1,536,470
<b>Total Fund Balances</b>	<b>\$ 7,595,341</b>	<b>\$ 1,075,857</b>	<b>\$ 2,253,239</b>	<b>\$ 5,886,586</b>	<b>\$ 16,811,023</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 8,849,066</b>	<b>\$ 2,335,276</b>	<b>\$ 3,084,405</b>	<b>\$ 7,144,862</b>	<b>\$ 21,413,609</b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**EXHIBIT 4**

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

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>16,811,023</b>
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		66,452,472
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,268,542
The County uses an internal service fund to charge the cost of self-insurance to other funds. The adjustment is the net assets of the Internal Service Fund that relate to governmental activities.		999,927
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	\$ (12,960,000)	
Unamortized premium on bonds	(41,564)	
Unamortized deferred debt issuance costs	58,420	
General obligation notes	(420,000)	
Capital leases	(6,814)	
Loans payable	(97,253)	
Compensated absences	(2,095,239)	
Accrued interest payable on general long-term debt	(97,556)	
	(15,660,006)	(15,660,006)
<b>Net Assets of Governmental Activities (Exhibit 1)</b>	<b>\$</b>	<b><u>70,871,958</u></b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**EXHIBIT 5**

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

	<u>General</u>	<u>Public Works</u>	<u>Human Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>					
Taxes	\$ 7,817,288	\$ 2,399,451	\$ 3,098,841	\$ 2,803,942	\$ 16,119,522
Special assessments	10,375	1,320	-	173,249	184,944
Licenses and permits	326,887	-	12,134	119,077	458,098
Intergovernmental	2,991,585	4,377,439	4,598,165	1,106,795	13,073,984
Charges for services	1,826,498	302,273	8,388	2,537,586	4,674,745
Fines and forfeits	103,562	-	-	33,293	136,855
Gifts and contributions	272,640	-	-	92,257	364,897
Investment earnings	742,932	2,360	-	99,746	845,038
Miscellaneous	410,170	402,028	142,556	120,015	1,074,769
<b>Total Revenues</b>	<b>\$ 14,501,937</b>	<b>\$ 7,484,871</b>	<b>\$ 7,860,084</b>	<b>\$ 7,085,960</b>	<b>\$ 36,932,852</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 5,874,677	\$ 431,467	\$ -	\$ 5	\$ 6,306,149
Public safety	6,520,203	-	-	-	6,520,203
Highways and streets	-	8,138,429	-	-	8,138,429
Human services	-	-	7,564,700	-	7,564,700
Health	6,235	-	-	2,820,191	2,826,426
Culture and recreation	213,155	302,492	-	902,364	1,418,011
Conservation of natural resources	344,987	43,447	-	188,314	576,748
Economic development	41,277	-	-	-	41,277
<b>Intergovernmental</b>	<b>-</b>	<b>252,875</b>	<b>-</b>	<b>-</b>	<b>252,875</b>
<b>Capital outlay</b>	<b>790,079</b>	<b>-</b>	<b>-</b>	<b>207,547</b>	<b>997,626</b>
<b>Debt service</b>					
Principal	119,499	-	-	1,265,000	1,384,499
Interest	5,252	-	-	522,674	527,926
Administrative (fiscal) charges	-	-	-	3,392	3,392
<b>Total Expenditures</b>	<b>\$ 13,915,364</b>	<b>\$ 9,168,710</b>	<b>\$ 7,564,700</b>	<b>\$ 5,909,487</b>	<b>\$ 36,558,261</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 586,573</b>	<b>\$ (1,683,839)</b>	<b>\$ 295,384</b>	<b>\$ 1,176,473</b>	<b>\$ 374,591</b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**EXHIBIT 5  
(Continued)**

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

	<u>General</u>	<u>Public Works</u>	<u>Human Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$ -	\$ 1,590,719	\$ -	\$ 623,196	\$ 2,213,915
Transfers out	(623,196)	-	-	(1,590,719)	(2,213,915)
Proceeds from promissory notes	12,350	-	-	-	12,350
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (610,846)</b>	<b>\$ 1,590,719</b>	<b>\$ -</b>	<b>\$ (967,523)</b>	<b>\$ 12,350</b>
<b>Net Change in Fund Balances</b>	<b>\$ (24,273)</b>	<b>\$ (93,120)</b>	<b>\$ 295,384</b>	<b>\$ 208,950</b>	<b>\$ 386,941</b>
<b>Fund Balances - January 1</b>	<b>7,619,614</b>	<b>1,195,021</b>	<b>1,957,855</b>	<b>5,677,636</b>	<b>16,450,126</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>(26,044)</b>	<b>-</b>	<b>-</b>	<b>(26,044)</b>
<b>Fund Balances - December 31</b>	<b><u>\$ 7,595,341</u></b>	<b><u>\$ 1,075,857</u></b>	<b><u>\$ 2,253,239</u></b>	<b><u>\$ 5,886,586</u></b>	<b><u>\$ 16,811,023</u></b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**EXHIBIT 6**

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

**Net change in fund balances - total governmental funds (Exhibit 5) \$ 386,941**

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

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

Deferred revenue - December 31	\$ 2,268,542	
Deferred revenue - January 1	(1,678,460)	590,082

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

Expenditures for general capital assets and infrastructure	\$ 4,253,461	
Net book value of assets disposed of	(127,645)	
Current year depreciation	(2,715,126)	1,410,690

Loan proceeds provide current financial resources to governmental funds, but increases long-term liabilities in the statement of net assets. (12,350)

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

Principal repayments		
General obligation bonds	\$ 1,035,000	
General notes	230,000	
Capital lease	113,840	
Loans	5,659	1,384,499

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. See Note 1.F. for details. 30,716

Internal service funds are used by management to charge the costs of certain activities to individual funds. The adjustment is the change in net assets of activities of the Internal Service Fund that relate to governmental activities. (134,645)

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 3,655,933**

**PROPRIETARY FUNDS**

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**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**EXHIBIT 7**

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

	<b>Hospital Operating Enterprise Fund</b>	<b>Internal Service Fund</b>
<b><u>Assets</u></b>		
Current assets		
Cash and pooled investments	\$ 2,794,750	\$ 2,017,110
Petty cash and change funds	525	-
Departmental cash	39,691	-
Investments	2,623,649	987,344
Accounts receivable - net	11,906,966	-
Accrued interest receivable	-	12,310
Inventories	1,194,828	-
Prepaid items	258,018	-
	<b>\$ 18,818,427</b>	<b>\$ 3,016,764</b>
Noncurrent assets		
Funds designated for capital improvements	\$ 13,174,480	\$ -
Other assets	512,594	-
Capital assets		
Nondepreciable	56,930	-
Depreciable - net	17,276,041	-
	<b>\$ 31,020,045</b>	<b>\$ -</b>
<b>Total Assets</b>	<b>\$ 49,838,472</b>	<b>\$ 3,016,764</b>
<b><u>Liabilities</u></b>		
Current liabilities		
Accounts payable	\$ 2,031,681	\$ 499,815
Salaries payable	2,177,433	-
	<b>\$ 4,209,114</b>	<b>\$ 499,815</b>
Noncurrent liabilities		
Compensated absences payable - long-term	2,993,227	-
	<b>\$ 7,202,341</b>	<b>\$ 499,815</b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

***EXHIBIT 7  
(Continued)***

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

	<b>Hospital Operating Enterprise Fund</b>	<b>Internal Service Fund</b>
<b><u>Net Assets</u></b>		
Invested in capital assets - net of related debt	\$ 17,332,971	\$ -
Restricted for		
Cancer services	621,784	-
Capital acquisitions	128,168	-
Unrestricted	24,553,208	2,516,949
<b>Total Net Assets</b>	<b>\$ 42,636,131</b>	<b>\$ 2,516,949</b>
Adjustment to reflect the consolidation of the Internal Service Fund activities related to the Hospital Operating Enterprise Fund	1,517,022	
<b>Net Assets - Business-Type Activities</b>	<b>\$ 44,153,153</b>	

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

*EXHIBIT 8*

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Hospital Operating Enterprise Fund</b>	<b>Internal Service Fund</b>
<b>Operating Revenues</b>		
Patient services	\$ 58,611,653	\$ -
Premiums	-	6,187,684
Miscellaneous	1,298,286	-
	<b>\$ 59,909,939</b>	<b>\$ 6,187,684</b>
<b>Operating Expenses</b>		
Employee benefits and payroll taxes	\$ 5,989,208	\$ -
Professional services	2,694,469	-
Contracted services	6,392,082	-
Claims paid	-	5,861,141
Administration and fiscal services	-	771,244
Supplies	14,252,840	-
Payroll	23,297,563	-
Utilities	960,956	-
Insurance	222,890	-
Rent	612,153	-
Repairs and maintenance	902,067	-
MinnesotaCare tax and surcharge	1,176,806	-
Miscellaneous	294,754	-
Depreciation	2,444,313	-
	<b>\$ 59,240,101</b>	<b>\$ 6,632,385</b>
<b>Operating Income (Loss)</b>	<b>\$ 669,838</b>	<b>\$ (444,701)</b>
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	\$ 896,974	\$ 124,329
Noncapital grants and contributions	148,304	-
Gain (loss) on sale/disposal of capital assets	(4,038)	-
Other expense	(79,984)	-
	<b>\$ 961,256</b>	<b>\$ 124,329</b>
<b>Income (Loss) Before Contributions</b>	<b>\$ 1,631,094</b>	<b>\$ (320,372)</b>
Capital contributions	50,711	-
<b>Change in net assets</b>	<b>\$ 1,681,805</b>	<b>\$ (320,372)</b>
<b>Net Assets - January 1</b>	<b>40,954,326</b>	<b>2,837,321</b>
<b>Net Assets - December 31</b>	<b>\$ 42,636,131</b>	<b>\$ 2,516,949</b>
<b>Change in Net Assets</b>		
Hospital Operating Enterprise Fund	\$ 1,681,805	
Internal Service Fund activities related to Hospital Operating Enterprise Fund	(185,726)	
<b>Change in Net Assets of Business-Type Activities</b>	<b>\$ 1,496,079</b>	

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**EXHIBIT 9**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
Increase (Decrease) in Cash and Cash Equivalents**

	<b>Hospital Operating Enterprise Fund</b>	<b>Internal Service Fund</b>
<b>Cash Flows From Operating Activities</b>		
Receipts from customers and users	\$ 58,508,122	\$ -
Receipts from internal services provided	-	6,188,267
Payments to suppliers	(26,820,127)	(6,482,845)
Payments to employees	(29,450,499)	-
Other receipts and payments	1,298,286	-
	<b>\$ 3,535,782</b>	<b>\$ (294,578)</b>
<b>Cash Flows From Noncapital Financing Activities</b>		
Intergovernmental receipts	<b>\$ 68,320</b>	<b>\$ -</b>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Capital contributions	\$ 196,516	\$ -
Proceeds from the sale of capital assets	18,976	-
Purchases of other assets	(15,000)	-
Purchases of capital assets	(1,538,404)	-
	<b>\$ (1,337,912)</b>	<b>\$ -</b>
<b>Cash Flows From Investing Activities</b>		
Investment earnings received	\$ 848,158	\$ 112,019
Change in investments	(3,012,484)	(987,344)
	<b>\$ (2,164,326)</b>	<b>\$ (875,325)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 101,864</b>	<b>\$ (1,169,903)</b>
<b>Cash and Cash Equivalents at January 1</b>	<b>4,932,435</b>	<b>3,187,013</b>
<b>Cash and Cash Equivalents at December 31</b>	<b>\$ 5,034,299</b>	<b>\$ 2,017,110</b>
<b>Cash and Cash Equivalents - Exhibit 7</b>		
Cash and pooled investments	\$ 2,794,750	\$ 2,017,110
Petty cash and change funds	525	-
Departmental cash	39,691	-
Funds designated for capital improvements	2,199,333	-
	<b>\$ 5,034,299</b>	<b>\$ 2,017,110</b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**EXHIBIT 9  
(Continued)**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
Increase (Decrease) in Cash and Cash Equivalents**

	<b>Hospital Operating Enterprise Fund</b>	<b>Internal Service Fund</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>		
<b>Operating income (loss)</b>	<b>\$ 669,838</b>	<b>\$ (444,701)</b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>		
Depreciation expense	\$ 2,444,313	\$ -
Debt forgiven on physician loans	51,725	-
(Increase) decrease in accounts receivable	175,640	-
(Increase) decrease in due from other funds	-	582
(Increase) decrease in inventories	(93,724)	-
(Increase) decrease in prepaid items	(25,254)	-
Increase (decrease) in accounts payable	42,418	149,541
Increase (decrease) in salaries payable	(3,182)	-
Increase (decrease) in other accrued expenses	274,008	-
<b>Total adjustments</b>	<b>\$ 2,865,944</b>	<b>\$ 150,123</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 3,535,782</b>	<b>\$ (294,578)</b>

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**FIDUCIARY FUNDS**

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DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2006

	<u>Agency</u>
<b><u>Assets</u></b>	
Cash and pooled investments	\$ 968,565
Receivables	
Accounts	<u>17,486</u>
<b>Total Assets</b>	<b><u>\$ 986,051</u></b>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 17,614
Due to other governments	<u>968,437</u>
<b>Total Liabilities</b>	<b><u>\$ 986,051</u></b>

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**DISCRETELY PRESENTED COMPONENT UNITS**

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**EXHIBIT 11**

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

	<b>Pope-Douglas Solid Waste Board</b>	<b>Housing and Redevelopment Authority</b>	<b>Total</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and pooled investments	\$ 1,455,914	\$ 386,994	\$ 1,842,908
Petty cash and change funds	300	-	300
Investments	5,352,878	-	5,352,878
Special assessments			
Current	67,747	-	67,747
Prior	15,640	-	15,640
Accounts receivable - net	400,840	23,076	423,916
Accrued interest receivable	46,618	-	46,618
Due from other governments	9,989	22,117	32,106
Loans receivable	-	68,025	68,025
Deferred charges	-	5,098	5,098
Prepaid items	10,311	-	10,311
<b>Total current assets</b>	<b>\$ 7,360,237</b>	<b>\$ 505,310</b>	<b>\$ 7,865,547</b>
<b>Restricted assets</b>			
Investments	\$ 1,183,554	\$ 366,210	\$ 1,549,764
Accrued interest receivable	2,695	-	2,695
<b>Total restricted assets</b>	<b>\$ 1,186,249</b>	<b>\$ 366,210</b>	<b>\$ 1,552,459</b>
<b>Noncurrent assets</b>			
Loans receivable - long-term	\$ -	\$ 202,840	\$ 202,840
Capital assets			
Nondepreciable	179,288	169,831	349,119
Depreciable - net	12,251,935	2,707,798	14,959,733
<b>Total noncurrent assets</b>	<b>\$ 12,431,223</b>	<b>\$ 3,080,469</b>	<b>\$ 15,511,692</b>
<b>Total Assets</b>	<b>\$ 20,977,709</b>	<b>\$ 3,951,989</b>	<b>\$ 24,929,698</b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**EXHIBIT 11  
(Continued)**

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

	<b>Pope-Douglas Solid Waste Board</b>	<b>Housing and Redevelopment Authority</b>	<b>Total</b>
<b><u>Liabilities</u></b>			
<b>Current liabilities</b>			
Accounts payable	\$ 99,566	\$ 42,261	\$ 141,827
Salaries payable	58,853	-	58,853
Accrued payroll taxes	-	977	977
Compensated absences payable - current	6,086	5,639	11,725
Due to other governments	1,001	5,699	6,700
Accrued interest payable	-	52,422	52,422
Deposits held for others	-	13,305	13,305
Notes payable - current	-	63,245	63,245
Bonds payable - current	-	40,000	40,000
Deferred credits	-	111,416	111,416
	<b>\$ 165,506</b>	<b>\$ 334,964</b>	<b>\$ 500,470</b>
<b>Noncurrent liabilities</b>			
Compensated absences payable - long-term	\$ 195,010	\$ 31,442	\$ 226,452
Landfill closure costs - long-term	399,824	-	399,824
Notes payable - long-term	-	185,123	185,123
Bonds payable - long-term	-	2,060,000	2,060,000
	<b>\$ 594,834</b>	<b>\$ 2,276,565</b>	<b>\$ 2,871,399</b>
	<b>\$ 760,340</b>	<b>\$ 2,611,529</b>	<b>\$ 3,371,869</b>
<b><u>Net Assets</u></b>			
Invested in capital assets - net of related debt	\$ 12,431,223	\$ 1,098,149	\$ 13,529,372
Restricted for			
Postclosure	786,425	-	786,425
Housing and redevelopment	-	685,669	685,669
Unrestricted	6,999,721	(443,358)	6,556,363
	<b>\$ 20,217,369</b>	<b>\$ 1,340,460</b>	<b>\$ 21,557,829</b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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

	<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>
<b>Component Units</b>		
Pope-Douglas Solid Waste Board	\$ 4,263,233	\$ 4,078,482
Housing and Redevelopment Authority	2,546,826	297,050
<b>Total Component Units</b>	<b>\$ 6,810,059</b>	<b>\$ 4,375,532</b>

**General Revenues and Other Items**

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

**Total general revenues and other items**

**Change in net assets**

**Net Assets - Beginning**

**Net Assets - Ending**

**EXHIBIT 12**

<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Assets</b>		
<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Pope-Douglas Solid Waste Board</b>	<b>Housing and Redevelopment Authority</b>	<b>Total</b>
\$ 138,937	\$ -	\$ (45,814)	\$ -	\$ (45,814)
1,887,295	-	-	(362,481)	(362,481)
<b>\$ 2,026,232</b>	<b>\$ -</b>	<b>\$ (45,814)</b>	<b>\$ (362,481)</b>	<b>\$ (408,295)</b>
		\$ -	\$ 286,118	\$ 286,118
		3,871	-	3,871
		269,955	14,521	284,476
		<b>\$ 273,826</b>	<b>\$ 300,639</b>	<b>\$ 574,465</b>
		\$ 228,012	\$ (61,842)	\$ 166,170
		19,989,357	1,402,302	21,391,659
		<b>\$ 20,217,369</b>	<b>\$ 1,340,460</b>	<b>\$ 21,557,829</b>

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**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2006. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Douglas County was established March 8, 1858, and is an organized County having the powers, duties, and privileges granted counties by Minn. Stat. § 373.01. As required by accounting principles generally accepted in the United States of America, these financial statements present Douglas County (primary government) and its component units for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Discretely Presented Component Units

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

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Housing and Redevelopment Authority (HRA) of Douglas County provides services pursuant to Minn. Stat. §§ 469.001-469.047.	County appoints members, and the HRA is a financial burden.	Douglas County HRA 715 Elm Street, Suite 1060 Alexandria, Minnesota 56308

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Units (Continued)

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Pope-Douglas Solid Waste Board provides for the management and disposal of solid waste in Pope and Douglas Counties pursuant to Minn. Stat. chs. 115A and 400.	County appoints a majority of the Board members and must approve any debt.	Pope-Douglas Solid Waste 2115 South Jefferson Alexandria, Minnesota 56308

Joint Ventures

The County participates in several joint ventures described in Note 7.C. The County also participates in a jointly-governed organization described in Note 7.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 units. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

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

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

---

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

---

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major enterprise fund:

- The Hospital Operating Fund is used to account for providing hospital and emergency care to the sick, injured, and newborn. Financing is provided primarily by user service charges.

Additionally, the County reports the following fund types:

- The Internal Service Fund accounts for self-insurance activities provided to other departments and funds on a cost-reimbursement basis.
- The agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the County holds for others in an agent capacity.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, 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. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Douglas County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, shared revenues, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt,

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2006, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments 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 2006 were \$997,199.

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

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

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

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

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

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

4. Inventories and Prepaid Items

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

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

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

5. Restricted Assets

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the County did not have any capitalized interest.

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

<u>Assets</u>	<u>Years</u>
Buildings	5 - 40
Land and building improvements	3 - 30
Public domain infrastructure	20 - 75
Furniture, equipment, and vehicles	3 - 20

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

7. Compensated Absences

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

8. Deferred Revenue

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.

9. Long-Term Obligations

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

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

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

10. Fund Equity

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

11. Use of Estimates

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

E. Prior Period Adjustment

In the 2005 financial statements, the County overstated net assets in the amount of \$969,300 by understating its vested sick leave due to misinterpretation of the vesting method of GASB Statement No. 16, *Accounting for Compensated Absences*. The net asset account has been restated to show this correction.

Net Assets - January 1	\$ 68,185,325
Prior period adjustment	<u>(969,300)</u>
Net Assets - January 1, as restated	<u>\$ 67,216,025</u>

F. Exhibit 6 Reconciliation Detail

Exhibit 6 includes a reconciliation between changes in fund balances of governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities.

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

F. Exhibit 6 Reconciliation Detail (Continued)

One element of that reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this \$(30,716) are:

Change in compensated absences	\$ (40,364)
Change in accrued interest payable on general long-term debt	(18,270)
Amortization of deferred debt issuance costs	6,492
Amortization of bond premiums	(4,618)
Change in inventories	<u>26,044</u>
Net Adjustment to Decrease Net Changes in Fund Balance to Arrive at Changes in Net Assets	<u>\$ (30,716)</u>

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Ditch Special Revenue Fund had a deficit fund balance of \$145,949 as of December 31, 2006. The Ditch Special Revenue Fund’s deficit will be eliminated with future special assessment levies against benefited properties.

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2006, expenditures exceeded appropriations in the General Fund and the Public Works Special Revenue Fund by \$1,923,501 and \$536,444, respectively. Also, the Public Health Nurse Fund’s expenditures exceeded appropriations by \$398,214. These expenditures in excess of budget were funded by greater than anticipated revenues.

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 15,494,614
Petty cash and change funds	7,545
Departmental cash	674
Investments	2,325,715
Business-type activities	
Cash and pooled investments	4,799,277
Petty cash and change funds	525
Departmental cash	39,691
Investments	2,623,649
Designated for capital improvements	13,174,480
Component units	
Cash and pooled investments	1,842,908
Petty cash and change funds	300
Investments	5,352,878
Restricted assets	
Investments	1,549,764
Statement of fiduciary net assets	
Cash and pooled investments	968,565
Total Cash and Investments	\$ 48,180,585

a. Deposits

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

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

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

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

Credit Risk

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

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2006, \$27,222,965 of U.S. government securities, \$5,734 of donated stock, \$1,699,279 of negotiable certificates of deposit, and \$339,257 of money market accounts are exposed to custodial credit risk because they are held by the counterparty.

Concentration of Credit Risk

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

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

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
U.S. government agency securities					
Federal Home Loan Mortgage Corporation - Pooled	Aaa	Moody's		11/03/2009	\$ 245,047
Federal Home Loan Mortgage Corporation - Pooled	Aaa	Moody's		03/22/2010	180,447
Federal Home Loan Mortgage Corporation - Pooled	Aaa	Moody's		05/28/2013	283,755
Federal Home Loan Mortgage Corporation - Pooled	Aaa	Moody's		11/15/2009	131,645
Federal Home Loan Mortgage Corporation - Pooled	Aaa	Moody's		12/15/2009	97,224
Federal Home Loan Mortgage Corporation - Pooled	Aaa	Moody's		06/08/2010	225,655
Federal Home Loan Mortgage Corporation - Capital Improvements	Aaa	Moody's		08/18/2008	398,048
Federal Home Loan Mortgage Corporation - PDSW	Aaa	Moody's		06/08/2010	107,922
Federal Home Loan Mortgage Corporation - PDSW	Aaa	Moody's		12/15/2009	94,640
Federal Home Loan Mortgage Corporation - PDSW	Aaa	Moody's		09/17/2009	436,254

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
Federal Home Loan Mortgage Corporation - PDSW	Aaa	Moody's		10/29/2009	142,484
Federal Home Loan Mortgage Corporation - PDSW	Aaa	Moody's		01/15/2010	385,581
Federal Home Loan Mortgage Corporation - Hospital	N/R			11/13/2007	478,350
Federal Home Loan Mortgage Corporation - Hospital	Aaa	Moody's		02/08/2010	506,862
Federal Home Loan Mortgage Corporation - Hospital	Aaa	Moody's		10/29/2009	348,940
Federal Home Loan Mortgage Corporation - Hospital	Aaa	Moody's		12/28/2007	74,739
Federal Home Loan Mortgage Corporation - Hospital	Aaa	Moody's		10/15/2009	296,242
Federal Home Loan Mortgage Corporation - Hospital	Aaa	Moody's		04/15/2009	98,879
Federal Home Loan Mortgage Corporation - Hospital	Aaa	Moody's		02/25/2015	191,614
Total Federal Home Loan Mortgage Corporation			13.2%		\$ 4,724,328
Federal National Mortgage Association - Pooled	Aaa	Moody's		12/21/2007	\$ 505,380
Federal National Mortgage Association - Pooled	Aaa	Moody's		10/28/2009	98,625
Federal National Mortgage Association - Pooled	Aaa	Moody's		07/28/2010	297,093
Federal National Mortgage Association - Pooled	Aaa	Moody's		01/15/2007	2,000,000
Federal National Mortgage Association - Self-Insurance	Aaa	Moody's		03/28/2007	99,719
Federal National Mortgage Association - Capital Improvements	Aaa	Moody's		04/28/2008	271,906
Federal National Mortgage Association - PDSW	Aaa	Moody's		12/21/2007	654,020
Federal National Mortgage Association - PDSW	Aaa	Moody's		08/10/2009	146,579
Federal National Mortgage Association - PDSW	Aaa	Moody's		09/24/2009	146,109
Federal National Mortgage Association - PDSW	Aaa	Moody's		10/29/2009	186,496
Federal National Mortgage Association - PDSW	Aaa	Moody's		10/29/2009	98,156
Federal National Mortgage Association - PDSW	Aaa	Moody's		12/21/2007	594,564
Federal National Mortgage Association - Hospital	Aaa	Moody's		04/05/2010	503,870
Federal National Mortgage Association - Hospital	Aaa	Moody's		12/15/2009	496,780
Federal National Mortgage Association - Hospital	Aaa	Moody's		09/28/2007	802,535
Federal National Mortgage Association - Hospital	Aaa	Moody's		10/26/2007	494,386
Federal National Mortgage Association - Hospital	Aaa	Moody's		11/28/2014	495,739
Federal National Mortgage Association - Hospital	Aaa	Moody's		10/28/2009	49,683
Federal National Mortgage Association - Hospital	Aaa	Moody's		08/10/2010	454,327
Federal National Mortgage Association - Hospital	Aaa	Moody's		01/18/2011	507,809
Federal National Mortgage Association - Hospital	Aaa	Moody's		08/18/2014	99,133
Total Federal National Mortgage Association			25.2%		\$ 9,002,909

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Federal Home Loan Bank - Pooled	Aaa	Moody's		07/27/2007	\$ 695,191
Federal Home Loan Bank - Pooled	Aaa	Moody's		07/23/2007	196,750
Federal Home Loan Bank - Pooled	Aaa	Moody's		09/29/2010	395,500
Federal Home Loan Bank - Pooled	Aaa	Moody's		03/26/2010	268,040
Federal Home Loan Bank - Pooled	Aaa	Moody's		04/01/2010	121,836
Federal Home Loan Bank - Pooled	Aaa	Moody's		02/09/2007	99,393
Federal Home Loan Bank - Pooled	Aaa	Moody's		05/24/2007	99,174
Federal Home Loan Bank - Pooled	Aaa	Moody's		12/24/2007	458,690
Federal Home Loan Bank - Pooled	Aaa	Moody's		04/08/2008	98,455
Federal Home Loan Bank - Pooled	Aaa	Moody's		08/13/2008	245,123
Federal Home Loan Bank - Pooled	Aaa	Moody's		08/20/2008	173,705
Federal Home Loan Bank - Pooled	Aaa	Moody's		09/19/2008	200,187
Federal Home Loan Bank - Pooled	Aaa	Moody's		08/26/2009	148,122
Federal Home Loan Bank - Pooled	Aaa	Moody's		05/01/2013	97,845
Federal Home Loan Bank - Pooled	Aaa	Moody's		06/26/2013	284,820
Federal Home Loan Bank - Pooled	Aaa	Moody's		06/26/2013	238,282
Federal Home Loan Bank - Self-Insurance	Aaa	Moody's		07/23/2007	887,625
Federal Home Loan Bank - Capital Improvements	Aaa	Moody's		03/28/2008	232,577
Federal Home Loan Bank - Capital Improvements	Aaa	Moody's		09/30/2008	197,562
Federal Home Loan Bank - PDSW	Aaa	Moody's		07/24/2008	297,468
Federal Home Loan Bank - PDSW	Aaa	Moody's		03/25/2009	493,750
Federal Home Loan Bank - PDSW	Aaa	Moody's		10/22/2009	196,812
Federal Home Loan Bank - PDSW	Aaa	Moody's		11/08/2007	492,345
Federal Home Loan Bank - PDSW	Aaa	Moody's		02/01/2010	497,030
Federal Home Loan Bank - PDSW	Aaa	Moody's		03/30/2009	199,126
Federal Home Loan Bank - PDSW	Aaa	Moody's		08/18/2009	296,718
Federal Home Loan Bank - PDSW	Aaa	Moody's		11/08/2007	492,345
Federal Home Loan Bank - Hospital	Aaa	Moody's		02/09/2007	506,593
Federal Home Loan Bank - Hospital	Aaa	Moody's		07/10/2007	1,027,065
Federal Home Loan Bank - Hospital	Aaa	Moody's		09/28/2007	506,150
Federal Home Loan Bank - Hospital	Aaa	Moody's		05/12/2008	502,623
Federal Home Loan Bank - Hospital	Aaa	Moody's		12/17/2010	489,276
Federal Home Loan Bank - Hospital	Aaa	Moody's		11/26/2012	490,224
Federal Home Loan Bank - Hospital	Aaa	Moody's		01/28/2011	506,547
Federal Home Loan Bank - Hospital	Aaa	Moody's		02/02/2009	499,202
Federal Home Loan Bank - Hospital	Aaa	Moody's		03/16/2010	402,222
Federal Home Loan Bank - Hospital	Aaa	Moody's		08/10/2010	231,432
Federal Home Loan Bank - Hospital	Aaa	Moody's		01/24/2011	101,752
Federal Home Loan Bank - Hospital	Aaa	Moody's		05/21/2007	308,478
Federal Home Loan Bank - Hospital	Aaa	Moody's		08/26/2009	201,483
Federal Home Loan Bank - Hospital	Aaa	Moody's		07/27/2007	505,010
Federal Home Loan Bank - Hospital	Aaa	Moody's		11/26/2010	99,125
Federal Home Loan Bank - Hospital	Aaa	Moody's		06/26/2013	115,571
Federal Home Loan Bank - Hospital	Aaa	Moody's		07/02/2015	195,309
Total Federal Home Loan Bank			41.3%		\$ 14,792,533

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Government National Mortgage Association - Pooled			N/A	03/15/2009	\$ 565
Federal Farm Credit Bank - PDSW	Aaa	Moody's	<5%	09/29/2008	\$ 481,388
Commercial paper GE Capital Credit Corporation - Hospital	P-1	Moody's	<5%	01/05/2007	\$ 1,010,849
Mutual funds					
UBS - Pooled	N/R	N/A		N/A	\$ 22,733
UBS PDSW - Pooled	N/R	N/A		N/A	19,440
UBS Hospital - Pooled	N/R	N/A		N/A	20,477
UBS Select Hospital - Pooled	Aaa	Moody's		N/A	314,874
UBS Self Insurance - Pooled	N/R	N/A		N/A	23,730
UBS Capital Improvements - Pooled	N/R	N/A		N/A	2
Wells Fargo Hospital - Pooled	AAA	S&P		N/A	24,297
Wachovia Securities - Pooled	Aaa	Moody's		N/A	14,352
UBS PDSW Assurance - PDSW	N/R	N/A		N/A	96,645
Total mutual funds			<5%		\$ 536,550
Negotiable certificates of deposit					
Bank Hapoalim New York - Pooled	N/R	N/A		01/05/2007	\$ 50,000
World Finl Cap Jumbo Utah - Pooled	N/R	N/A		01/05/2007	100,000
Washington Mutual Bank Nevada - Pooled	N/R	N/A		01/19/2007	97,000
Seattle Savings Ba Washington - Pooled	N/R	N/A		01/31/2007	97,000
United Community Bank Inc., Georgia - Pooled	N/R	N/A		03/22/2007	97,000
Capmark Bank Utah - Pooled	N/R	N/A		06/27/2007	40,000
Lasalle Bank Midwest Chicago - Pooled	N/R	N/A		11/16/2007	95,862
Lasalle Bank Midwest Troy Michigan - Pooled	N/R	N/A		03/07/2008	96,109
Waypoint Bank - Pooled	N/R	N/A		07/09/2013	98,459
Acacia Fed SB Falls Church, VA - Hospital	N/R	N/A		01/22/2007	97,964
Firstbank of Puerto Rico - Hospital	N/R	N/A		04/20/2007	97,919
Southwest Bank of St. Louis - Hospital	N/R	N/A		04/24/2007	97,901
Nexbank SSB - Hospital	N/R	N/A		08/03/2007	50,024
Columbus B&TC Georgia - Hospital	N/R	N/A		08/09/2007	50,026
LaSalle Bank Midwest Troy, Michigan - Hospital	N/R	N/A		11/01/2007	97,908
Morgan Stanley Bank WVC Utah - Hospital	N/R	N/A		11/01/2007	97,948
Total negotiable certificates of deposit			N/A		\$ 1,361,120
Repurchase agreement Bremer - Hospital	N/R	N/A	10.1%		\$ 3,623,550

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Stocks					
Metlife (Donated) - Pooled	N/R	N/A			\$ 250,084
Medtonic (Donated) - Public Health Nurse	N/R	N/A			5,886
Total stocks			<5%		\$ 255,970
Total investments					\$ 35,789,762
Deposits					11,588,884
Departmental cash, petty cash, and change funds					48,735
Total cash and investments under control of County Auditor/Treasurer					\$ 47,427,381
Housing and Redevelopment Authority cash and investments (Note 9.B.)					753,204
Total Cash and Investments					\$ 48,180,585

N/A - Not applicable

N/R - Not rated

<5% - Concentration is less than 5% of investments

As of December 31, 2006, the Pope-Douglas Solid Waste Board discretely presented component unit had \$1,166,881 (17.9 percent) in Federal Home Loan Mortgage Corporation securities, \$1,825,924 (27.9 percent) in Federal National Mortgage Association securities, \$2,965,594 (45.4 percent) in Federal Home Loan Bank securities, and \$481,388 (7.4 percent) in a Federal Farm Credit Bank security, all of which exceeded 5.0 percent. The Hospital Operating Enterprise Fund had \$1,995,626 (14.1 percent) in Federal Home Loan Mortgage Corporation securities, \$3,904,262 (27.5 percent) in Federal National Mortgage Association securities, \$6,688,062 (47.1 percent) in Federal Home Loan Bank securities, and \$1,010,849 (7.1 percent) in General Electric Capital Corporation commercial paper, all of which exceeded 5.0 percent. The Self-Insurance Internal Service Fund had \$99,719 (10.1 percent) in Federal National Mortgage Association securities and \$887,625 (89.9 percent) in Federal Home Loan Bank securities, all of which exceeded 5.0 percent. The Capital Improvements Capital Projects Fund

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

had \$398,048 (36.2 percent) in Federal Home Loan Mortgage Corporation securities, \$271,906 (24.7 percent) in Federal National Mortgage Association securities and \$430,139 (39.1 percent) in Federal Home Loan Bank securities, all of which exceeded 5.0 percent.

2. Receivables

Receivables as of December 31, 2006, for the County, including any applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
<b>Governmental Activities</b>		
Taxes	\$ 427,127	\$ -
Special assessments	717,274	-
Accounts	325,931	-
Interest	135,104	-
Due from other governments	2,534,831	-
Contracts	10,888	-
Total Governmental Activities	\$ 4,151,155	\$ -
<b>Business-Type Activities</b>		
Accounts	\$ 11,906,966	\$ -
Interest	12,310	-
Total Business-Type Activities	\$ 11,919,276	\$ -

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

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

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 2,547,967	\$ 171,064	\$ -	\$ 2,719,031
Construction in progress	624,818	1,703,555	624,818	1,703,555
Total capital assets not depreciated	\$ 3,172,785	\$ 1,874,619	\$ 624,818	\$ 4,422,586
Capital assets depreciated				
Land and building improvements	\$ 271,174	\$ -	\$ -	\$ 271,174
Buildings	21,158,581	-	-	21,158,581
Machinery, furniture, and equipment	6,567,128	1,112,014	510,952	7,168,190
Infrastructure	62,987,406	1,891,646	97,927	64,781,125
Total capital assets depreciated	\$ 90,984,289	\$ 3,003,660	\$ 608,879	\$ 93,379,070
Less: accumulated depreciation for				
Land and building improvements	\$ 101,887	\$ 12,942	\$ -	\$ 114,829
Buildings	6,264,919	531,469	-	6,796,388
Machinery, furniture, and equipment	3,832,362	619,401	434,218	4,017,545
Infrastructure	18,916,124	1,551,314	47,016	20,420,422
Total accumulated depreciation	\$ 29,115,292	\$ 2,715,126	\$ 481,234	\$ 31,349,184
Total capital assets depreciated, net	\$ 61,868,997	\$ 288,534	\$ 127,645	\$ 62,029,886
Governmental Activities Capital Assets, Net	\$ 65,041,782	\$ 2,163,153	\$ 752,463	\$ 66,452,472

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 56,930	\$ -	\$ -	\$ 56,930
Capital assets depreciated				
Land and building improvements	\$ 1,222,340	\$ 76,896	\$ -	\$ 1,299,236
Buildings	27,568,592	29,164	-	27,597,756
Machinery, furniture, and equipment	16,469,110	1,432,344	614,184	17,287,270
Total capital assets depreciated	\$ 45,260,042	\$ 1,538,404	\$ 614,184	\$ 46,184,262
Less: accumulated depreciation for				
Land and building improvements	\$ 816,609	\$ 59,061	\$ -	\$ 875,670
Buildings	15,238,924	1,016,576	-	16,255,500
Machinery, furniture, and equipment	10,999,544	1,368,676	591,169	11,777,051
Total accumulated depreciation	\$ 27,055,077	\$ 2,444,313	\$ 591,169	\$ 28,908,221
Total capital assets depreciated, net	\$ 18,204,965	\$ (905,909)	\$ 23,015	\$ 17,276,041
Business-Type Activities Capital Assets, Net	\$ 18,261,895	\$ (905,909)	\$ 23,015	\$ 17,332,971

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

Governmental Activities	
General government	\$ 461,464
Public safety	213,842
Highways and streets, including depreciation of infrastructure assets	1,884,908
Human services	12,033
Health	23,279
Culture and recreation	119,600
Total Depreciation Expense - Governmental Activities	<u>\$ 2,715,126</u>
Business-Type Activities	
Hospital operation	<u>\$ 2,444,313</u>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Public Works	\$ 1,105
	Human Services	16,822
	Other governmental	<u>3,418</u>
Total due to General Fund		<u>\$ 21,345</u>
Public Works	General	\$ 70,077
	Human Services	497
	Other governmental	<u>10,571</u>
Total due to Public Works Fund		<u>\$ 81,145</u>
Human Services	General	\$ 447
	Other governmental	<u>4,614</u>
Total due to Human Services Fund		<u>\$ 5,061</u>
Other governmental	Public Works	\$ 7,041
	Other governmental	<u>4,836</u>
Total due to other governmental funds		<u>\$ 11,877</u>
Total Due To/From Other Funds		<u><u>\$ 119,428</u></u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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3. Detailed Notes on All Funds

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

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	\$ 192,500

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2006, consisted of the following:

Transfers to Public Works Fund from Capital Projects Fund	\$	1,590,719	Provide funding for capital outlay
Transfers to nonmajor governmental funds from General Fund		623,196	Provide funding
Total Interfund Transfers	\$	2,213,915	

C. Liabilities

1. Construction Commitments

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

	Spent-to-Date	Remaining Commitment
Governmental Activities		
General Fund	\$ 761,007	\$ 3,450
Roads and bridges	482,978	165,793
Total Governmental Activities	\$ 1,243,985	\$ 169,243

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Vacation and Sick Leave

Governmental Activities

Under the County's personnel policies and union contracts, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 10 to 25 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 pay, approximately \$1,225,117 at December 31, 2006, is available to employees in the event of illness-related absences, and is not paid to them at termination.

Business-Type Activities

During 2002, the Hospital adopted a new employee benefit program whereby employees retiring in good standing from the Hospital under the state Public Employees Retirement Association of Minnesota (PERA) retirement plan after 30 calendar years of employment will receive, at the choice of the employee, either a payment equal to 50 percent of their unused sick leave or payment (to the full extent of their unused sick leave at the time of their retirement) of their health insurance premiums for the Hospital's group insurance program. As of December 31, 2006, the Hospital had an estimated current sick leave benefit payable of \$55,137 and a long-term benefit payable of \$2,993,227. The statements of revenues, expenses, and changes in net assets include expenses of \$264,265 related to this benefit for the year ended December 31, 2006.

3. Other Postemployment Benefits

Persons who retire with at least 25 years of service to Douglas County will have the option of leaving all of their regular and banked sick leave in a reserve fund to pay for continued health insurance coverage with the County, if eligible, or to pay the Medicare portion or the supplemental portion of their own and dependent insurance coverage.

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities

3. Other Postemployment Benefits (Continued)

The County's contribution from the General Fund for the year ended December 31, 2006, for five participants was \$19,791.

4. Leases

Operating Leases

The Hospital leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the year ended December 31, 2006, was \$507,590.

Capital Lease

The County has entered into a lease agreement as lessee for financing the acquisition of equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of their future minimum lease payments as of the inception date. This capital lease consists of the following at December 31, 2006:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original Issue</u>	<u>Balance</u>
Governmental Activities 2002 Sheriff's dictaphone	2007	Annual	\$ 6,814	\$ 34,069	<u>\$ 6,814</u>

The final payment on the lease obligation will be made in 2007.

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Long-Term Debt

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
General obligation bonds					
1998A G.O. Capital Improvement Bonds	2011	\$70,000 - \$120,000	3.90 - 4.65	\$ 1,195,000	\$ 540,000
1998B G.O. Capital Improvement Refunding Bonds	2011	\$105,000 - \$165,000	4.10 - 4.65	1,470,000	760,000
2002A G.O. Capital Improvement Bonds	2021	\$45,000 - \$95,000	3.00 - 5.00	1,250,000	1,060,000
2002C G.O. Solid Waste Disposal Bonds	2021	\$180,000 - \$225,000	3.00 - 5.00	3,075,000	2,455,000
2003A G.O. Road Construction Bonds	2014	\$340,000 - \$510,000	1.75 - 3.75	4,315,000	3,585,000
2003C G.O. Refunding Bonds	2011	\$150,000 - \$280,000	1.15 - 3.40	1,845,000	1,110,000
2005A G.O. Road Construction Bonds	2016	\$230,000 - \$310,000	2.75 - 3.70	2,680,000	2,680,000
2005B G.O. Ditch Bonds	2016	\$65,000 - \$90,000	2.80 - 3.70	<u>770,000</u>	<u>770,000</u>
Total General Obligation Bonds				<u>\$ 16,600,000</u>	<u>\$ 12,960,000</u>
General obligation notes					
2003B G.O. Capital Notes	2008	\$165,000 - \$245,000	1.05 - 2.40	<u>\$ 925,000</u>	<u>\$ 420,000</u>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Long-Term Debt

Governmental Activities (Continued)

Loans Payable

In 1997, the County entered into a loan agreement with the State of Minnesota, Commissioner of Finance, for implementation of energy conservation measures. In 2004, the County entered into a loan agreement with the State of Minnesota Pollution Control Agency for implementation of a clean water partnership.

<u>Loans Payable</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2006</u>
Energy Conservation Loan	2007	\$5,658	5.50	\$ 56,263	\$ 5,658
Sewer Clean Water Loan	2017	\$10,152	2.00	91,595	91,595
Total Loans Payable				<u>\$ 147,858</u>	<u>\$ 97,253</u>

6. Debt Service Requirements

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

Governmental Activities

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>		<u>Capital Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 1,365,000	\$ 457,877	\$ 175,000	\$ 9,380
2008	1,415,000	418,443	245,000	5,880
2009	1,455,000	374,515	-	-
2010	1,380,000	325,837	-	-
2011	1,425,000	276,641	-	-
2012 - 2016	4,475,000	756,949	-	-
2017 - 2021	1,445,000	217,440	-	-
Total	<u>\$ 12,960,000</u>	<u>\$ 2,827,702</u>	<u>\$ 420,000</u>	<u>\$ 15,260</u>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Debt Service Requirements

Governmental Activities (Continued)

Year Ending December 31	Loans Payable	
	Principal	Interest
2007	\$ 9,818	\$ 1,227
2008	8,445	1,707
2009	8,615	1,537
2010	8,788	1,364
2011	8,964	1,187
2012 - 2016	47,598	3,160
2017	5,025	50
Total	<u>\$ 97,253</u>	<u>\$ 10,232</u>

7. Changes in Long-Term Liabilities

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
G.O. bonds	\$ 13,995,000	\$ -	\$ 1,035,000	\$ 12,960,000	\$ 1,365,000
Add: unamortized premium	46,182	-	4,618	41,564	-
G.O. capital notes	650,000	-	230,000	420,000	175,000
Total G.O. bonds and notes	\$ 14,691,182	\$ -	\$ 1,269,618	\$ 13,421,564	\$ 1,540,000
Capital leases	120,653	-	113,839	6,814	6,814
Loans payable	90,562	12,350	5,659	97,253	9,817
Compensated absences	2,135,603	194,557	133,913	2,196,247	431,707
Governmental Activities Long-Term Liabilities	<u>\$ 17,038,000</u>	<u>\$ 206,907</u>	<u>\$ 1,523,029</u>	<u>\$ 15,721,878</u>	<u>\$ 1,988,338</u>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

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

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

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

Funding Policy

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

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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

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

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

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2006	\$ 803,343	\$ 152,380	\$ 112,641
2005	693,859	123,321	108,044
2004	658,863	116,606	100,347

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

B. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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4. Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer.

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

The County's contributions for the years ending December 31, 2006, 2005, and 2004, were \$11,439, \$10,704, and \$7,057, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County self-insures for employee health and dental coverage. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$390,000 per claim in 2006 and \$400,000 per claim in 2007. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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5. Risk Management (Continued)

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

The County entered into a program to self-insure group hospitalization, medical, and major medical benefits for its employees pursuant to Minn. Stat. § 471.61. Currently, the County contracts with Blue Cross/Blue Shield for employee and dependent group health coverage. The plan is primarily a conventional group health plan that is partially underwritten by the County and its employees.

Premiums are paid into the Internal Service Fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. The County has retained risk up to a \$100,000 stop-loss per contract claim per year (\$8,080,445 aggregate) for the health plan.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount, as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended December 31	
	2006	2005
Unpaid claims, beginning of fiscal year	\$ 350,274	\$ 230,848
Incurred claims (including IBNRs)	5,861,141	4,457,712
Claims payments	(5,711,600)	(4,338,286)
Unpaid Claims, End of Fiscal Year	\$ 499,815	\$ 350,274

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1,000,000 per claim and an annual aggregate limit of \$5,000,000. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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6. Net Charges for Services - Hospital Operating Enterprise Fund

Net charges for services in the Hospital Operating Enterprise Fund are for net patient service revenue. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services provided, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are provided and adjusted in future periods as final settlements are determined.

Gross patient revenue at established rates less third-party payor contractual adjustments consisted of the following as of December 31, 2006.

Patient service revenue	\$ 117,218,774
Allowances for contractual adjustments	<u>(58,607,121)</u>
Net Patient Service Revenue	<u>\$ 58,611,653</u>

7. Summary of Significant Contingencies and Other Items

A. Uncompensated Services to Indigent Patients

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, those amounts are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services furnished under its policy. In addition, the Hospital participates in the funding of medical care for the uninsured via a two percent MinnesotaCare tax on certain net revenues.

The following is a summary of charity discounts for patient care, the cost in excess of Medicaid public program payments, and the MinnesotaCare tax incurred during the year ended December 31, 2006.

Charity discounts for patient care at gross billing rates	\$ 439,869
Discount for uninsured patients at gross billing rates	501,950
Cost in excess of Medicare public program payments	1,708,288
MinnesotaCare tax	<u>677,192</u>
Total	<u>\$ 3,327,299</u>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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

B. Contingent Liabilities

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

The County, in connection with the normal conduct of its affairs, is involved in various judgments, claims, and litigations; it is expected that the final settlement of these matters will not materially affect the financial statements of the County.

C. Joint Ventures

West Central Area Agency on Aging

The West Central 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 the 25 percent of the administrative costs incurred in carrying out this agreement. Each county's proportional share of this 25 percent of the administrative costs will be based upon the number of persons age 60 or older living within that county. In 2006, the County paid \$4,620 to the West Central Area Agency on Aging as its share of the 2006 assessment. Any county may withdraw by providing notice to the chair of the Board 90 days prior to the beginning of the fiscal year. The chair shall forward a copy to each of the counties. Withdrawal shall not act to discharge any liability incurred or chargeable to any county before the effective date of the withdrawal.

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.

Complete financial information can be obtained from:

West Central Area Agency on Aging  
P. O. Box 726  
Fergus Falls, Minnesota 56537-0726

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7. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Rainbow Rider Transit Board

The West Central Multi-County Joint Powers Transit Board (Rainbow Rider) was established December 1, 1994, by a joint powers agreement among Douglas, Pope, Stevens, and Traverse Counties. Operations did not begin until 1995. Effective January 13, 2000, the Board changed its name from West Central Multi-County Joint Powers Transit Board to Rainbow Rider Transit Board. The agreement was established to provide a coordinated service delivery and funding source for public transportation for the mutual benefit of each of the joint participants. The joint powers agreement remains in force until any single county notifies the other parties of its intentions to withdraw, at least 90 days before the termination takes effect. The remaining counties may agree to continue the agreement with the remaining counties as members.

In 1996, the Public Transit Fund (Heartland Express) merged with Rainbow Rider. Title to three Heartland Express buses was transferred to Rainbow Rider as part of this transition. Douglas County received from Rainbow Rider a capital credit toward Douglas County's share of future capital purchases. This credit was for 20 percent of the present market value of the equipment transferred, which was the percentage that Douglas County originally contributed to purchase that equipment.

Control is vested in the Rainbow Rider Transit Board. The Board consists of two members from each county. Each member of the Board is appointed by the County Commissioners of the county they represent. Members of the Board serve an annual term and may be reappointed by their respective County Boards.

Complete financial information can be obtained from:

Rainbow Rider  
P. O. Box 136  
Lowry, Minnesota 56349

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

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7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

West Central Minnesota Drug Task Force (Continued)

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 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.

The Task Force is reported as an agency fund in Douglas County's financial statements. Financing and equipment will be provided by the full-time and associate member agencies. Douglas County provided \$5,000 to this organization in 2006.

Prime West Central County-Based Purchasing Initiative

The Prime West Central County-Based Purchasing Initiative was established in December 1998 by a joint powers agreement between Douglas 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, 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 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 share of each member's county-based purchasing-eligible population.

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7. 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. Douglas County did not contribute any funds to the Prime West Central County-Based Purchasing Initiative during 2006.

Complete financial information can be obtained from:

Prime West Health System  
2209 Jefferson Street  
Suite 101  
Alexandria, Minnesota 56308

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 Douglas 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 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 based on actual costs.

Control is vested in a Joint Powers Board comprising one representative of each County Board of Commissioners and one representative from each soil and water conservation district board of supervisors included within the agreement. During 2006, Douglas County did not contribute any money to the Joint Powers Board.

Complete financial information can be obtained from:

Pomme de Terre River Association Joint Powers Board  
900 Robert Street, Suite 104  
St. Paul, Minnesota 55103-2108

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

D. Jointly-Governed Organization

District IV Transportation Planning

Douglas County and 13 other cities and counties entered into a 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.

8. Pope-Douglas Solid Waste Board

A. Summary of Significant Accounting Policies

In addition to those identified in Note 1, the Pope-Douglas Solid Waste Board has the following significant disclosures.

1. Financial Reporting Entity

The Pope-Douglas Solid Waste Board is a joint enterprise operation of Pope and Douglas Counties (the Counties). The Board was established by a Joint Powers Agreement dated December 7, 1983, amended May 1, 1990, and amended again April 9, 1997, pursuant to Minn. Stat. § 471.59, Joint Powers Act.

Each of the counties is authorized and obligated pursuant to Minn. Stat. chs. 115A and 400, to provide for the management and disposal of solid waste in its respective county. It is the intention of the counties to cooperate in a joint venture to operate and manage an integrated waste management system within Douglas and Pope Counties. This purpose, without limitation, shall include the planning, administration, and operation of recycling programs; the ownership and operation of a waste-to-energy facility; and the ownership, operation, and management of any ash and/or by-pass landfill. The facility and administrative office is located in Alexandria, Minnesota.

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8. Pope-Douglas Solid Waste Board

A. Summary of Significant Accounting Policies

1. Financial Reporting Entity (Continued)

The Board is governed by a five-member Board of Directors, two appointed from Pope County and three from Douglas County. Receipts and disbursements are recorded in the Solid Waste Fund by the Douglas County Auditor/Treasurer. Douglas County's ownership is 75 percent, and Pope County's ownership is 25 percent.

2. Basic Financial Statements

The accounts of the Board are organized as an enterprise fund. The fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities. The Board's net assets are reported in three parts: (1) invested in capital assets, (2) restricted net assets, and (3) unrestricted net assets.

3. Measurement Focus and Basis of Accounting

The Board's 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. Special assessments are recognized as revenues in the year for which they are levied. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first and then unrestricted resources as needed.

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8. Pope-Douglas Solid Waste Board

A. Summary of Significant Accounting Policies (Continued)

4. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash and pooled investments and petty cash. The Board's cash is pooled and invested with Douglas County and is treated as a cash equivalent because the Board can deposit or effectively withdraw cash at any time without prior notice or penalty. Interest is credited to the Solid Waste Fund. Douglas County obtains collateral to cover the deposits in excess of insurance coverage.

Fund Investments

The Douglas County Auditor/Treasurer purchases investments for the Pope-Douglas Solid Waste Board upon its direction. Fund investments are reported at their fair value at December 31, 2006, based on market prices. Interest earned on such restricted investments is credited to the Solid Waste Fund. Additional disclosures as required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, are disclosed on a County-wide basis in the Douglas County Annual Financial Report.

Investments available to the Board are authorized in Minn. Stat. §§ 118A.04 and 118A.05 and are detailed in Note 3.A.1.b.

Receivables

All receivables are shown net of an allowance for uncollectibles.

Special assessments receivable consist of delinquent special assessments payable in the years 2000 through 2006.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the statements.

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8. Pope-Douglas Solid Waste Board

A. Summary of Significant Accounting Policies

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

Restricted Assets

Restricted assets represent the amounts set aside by the Board for landfill closure and postclosure financial assurances. Below is a summary of the restricted assets at December 31, 2006.

Restricted for closure and postclosure care costs	\$	1,183,554
Accrued interest on restricted investments		2,695
Total	\$	1,186,249

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements. Capital assets are defined by the Board as assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

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

Assets	Years
Landfill	Based on capacity
Buildings	20 - 40
Building improvements	20 - 40
Furniture, equipment, and vehicles	5 - 10

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8. Pope-Douglas Solid Waste Board

A. Summary of Significant Accounting Policies

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

Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred.

Deferred Revenue

The financial statements defer revenue for resources that have been received, but not yet earned.

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.

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste Board (Continued)

B. Detailed Notes on All Funds

1. Assets

Receivables

Receivables as of December 31, 2006, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Special assessments	\$ 83,387	\$ -
Accounts	400,840	-
Interest – unrestricted	46,618	-
Due from other governments	9,989	-
Interest – restricted	2,695	-
Total	\$ 543,529	\$ -

Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 179,288	\$ -	\$ -	\$ 179,288
Capital assets depreciated				
Land improvements	\$ 3,377,612	\$ -	\$ -	\$ 3,377,612
Buildings	6,065,561	74,447	-	6,140,008
Machinery, furniture, and equipment	8,712,702	76,775	-	8,789,477
Total capital assets depreciated	\$ 18,155,875	\$ 151,222	\$ -	\$ 18,307,097
Less: accumulated depreciation for				
Land improvements	\$ 708,829	\$ 76,733	\$ -	\$ 785,562
Buildings	1,786,324	198,157	-	1,984,481
Machinery, furniture, and equipment	2,685,001	600,118	-	3,285,119
Total accumulated depreciation	\$ 5,180,154	\$ 875,008	\$ -	\$ 6,055,162
Total capital assets depreciated, net	\$ 12,975,721	\$ (723,786)	\$ -	\$ 12,251,935
Capital Assets, Net	\$ 13,155,009	\$ (723,786)	\$ -	\$ 12,431,223

**DOUGLAS COUNTY  
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8. Pope-Douglas Solid Waste Board

B. Detailed Notes on All Funds (Continued)

2. Liabilities

Payables

Payables at December 31, 2006, were as follows:

Accounts	\$	99,566
Salaries		58,853
Due to other governments		1,001
Total Payables	\$	159,420

Operating Leases

The Pope-Douglas Solid Waste Board contracts with Alex Rubbish Services, Inc., to transport ash from the waste-to-energy incinerator, provide services to operate the landfill, and transport any leachate to a facility designated by the Board. The lease provides payments based upon the formula provided in the agreement. Lease payments were \$156,259 in 2006. The lease, beginning September 21, 2006, is for a two-year period and contains a 90-day cancellation notice by either party.

Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure and postclosure care costs	\$ 382,367	\$ 17,457	\$ -	\$ 399,824	\$ -
Compensated absences	132,770	182,573	114,247	201,096	6,086
Long-Term Liabilities	\$ 515,137	\$ 200,030	\$ 114,247	\$ 600,920	\$ 6,086

**DOUGLAS COUNTY  
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8. Pope-Douglas Solid Waste Board (Continued)

C. Employee Retirement Systems and Pension Plans

All full-time and certain part-time employees of the Pope-Douglas Solid Waste Board are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota. Disclosures about the Public Employees Retirement Fund can be found in Note 4.A.

The Board's contributions for the years ending December 31, 2006, 2005, and 2004, were \$76,485, \$65,239, and \$60,760, respectively, equal to the contractually required contributions for each year as set by state statute.

D. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the Board to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$399,824 landfill closure and postclosure care liability at December 31, 2006, represents the cumulative amount reported to date based on the use of 7.5 percent of the estimated capacity of the landfill. The Board will recognize the remaining estimated cost of closure and postclosure care of \$1,140,216 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2006. The Board expects to close the landfill in 2161. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The Board is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Board is in compliance with these requirements and, at December 31, 2006, investments of \$1,183,554 are held for these purposes. These are reported as restricted assets on the statement of net assets. The Board expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

**DOUGLAS COUNTY  
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8. Pope-Douglas Solid Waste Board (Continued)

E. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$390,000 per claim in 2006 and \$400,000 per claim in 2007. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Board in a method and amount to be determined by MCIT.

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

The Board participates in the Douglas County self-insurance program for employee health coverage. The activity is recorded in the Douglas County Self-Insurance Internal Service Fund.

F. Summary of Significant Contingencies and Other Items

1. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. 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 Board expects such amounts, if any, to be immaterial.

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste Board

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

2. Designated Funds

The Board has set aside funds for construction of a landfill and equipment replacement. Below is a summary of the investments set aside at December 31, 2006.

Designated for landfill construction	\$	1,120,806
Designated for equipment replacement		4,156,022
Total		\$ 5,276,828

3. Operating Budgets

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	\$ 2,090,000	\$ 2,820,050	\$ 730,050
Operating Expenses	3,274,714	4,263,233	(988,519)
Operating Income (Loss)	\$ (1,184,714)	\$ (1,443,183)	\$ (258,469)
Nonoperating Revenues (Expenses)	1,237,000	1,671,195	434,195
Net Income (Loss)	\$ 52,286	\$ 228,012	\$ 175,726

4. Affiliated Debt

In financing the construction of the materials recycling facility, the sponsoring counties sold general obligation bonds; these bonds are the liability of Pope and Douglas Counties and not of the Pope-Douglas Solid Waste Board. Outstanding debt of each county related to the financing is as follows:

Type of Indebtedness	Final Maturity	Installment Amounts	Net Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
2002 Pope County G.O. Solid Waste Bonds	2011	\$90,000 - \$115,000	3.3531	\$ 1,030,000	\$ 540,000
2002C Douglas County G.O. Solid Waste Disposal Bonds	2021	\$105,000 - \$225,000	4.5377	\$ 3,075,000	\$ 2,455,000

**DOUGLAS COUNTY  
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9. Housing and Redevelopment Authority of Douglas County

A. Summary of Significant Accounting Policies

The accounting policies of the Housing and Redevelopment Authority (HRA) of Douglas County conform to accounting principles generally accepted in the United States of America as applied to governmental units. The following is a summary of the more significant policies.

1. Financial Reporting Entity

As required by generally accepted accounting principles, these financial statements include all funds for which the HRA is financially accountable. The HRA does not have any component units. However, it is considered a component unit of Douglas County, Minnesota. A five-member Board of Commissioners, appointed by the County Board, governs the HRA.

The HRA provides low-income public housing to eligible individuals and families in accordance with the annual contributions contracts approved by the United States Department of Housing and Urban Development (HUD) and in accordance with an agreement with the United States Department of Agriculture's Rural Economic and Community Development Agency. The HRA also administers numerous state and local housing programs for eligible households, including rehabilitation loans, down-payment assistance, housing assistance payments, and septic system reconstruction loans.

2. Financial Statements

The statement of net assets and the statement of activities present financial information about the HRA's overall activities, which are classified as business-type activities. The HRA has no governmental or fiduciary funds. Eliminations have been made to minimize the double counting of internal transactions. Business-type activities are financed, at least in part, by fees charged to external parties. The statement of activities presents a comparison between direct expenses and program revenues for business-type activities. Direct expenses are those specifically associated with and clearly identifiable to a particular function. Program revenues include: (a) charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

**DOUGLAS COUNTY  
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9. Housing and Redevelopment Authority of Douglas County

A. Summary of Significant Accounting Policies (Continued)

3. Measurement Focus and Basis of Accounting

The HRA-wide proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the HRA gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Under the terms of grant agreements, the HRA may fund certain programs by a combination of specific cost-reimbursement grants, block grants, and general revenues. Therefore, when program expenses are incurred, both restricted and unrestricted net assets may be available to finance the program. It is the HRA's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Reports for the HRA's enterprise funds are prepared following the Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

4. Investments

The HRA's investments are in time deposits (savings, preferred money market accounts, or certificates of deposit) and are stated at fair market value, which approximates cost.

5. Accounts Receivable

No allowance for doubtful accounts is included in these financial statements, as management believes such amounts are not material.

**DOUGLAS COUNTY  
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9. Housing and Redevelopment Authority of Douglas County

A. Summary of Significant Accounting Policies (Continued)

6. Property and Equipment

Property and equipment are stated at cost. The cost of maintenance and repairs that do not add value to assets or materially extend assets' lives is not capitalized. The capitalization policy of the HRA is to capitalize assets costing more than \$200.

7. Budgetary Process

The HRA of Douglas County prepares an annual operating budget with formal Board approval prior to the start of its fiscal year. HUD requests the HRA keep the budget on file and submit to HUD the calculation for operating subsidy. The HRA must prepare a revised operating budget only when total expenditures exceed the amount originally budgeted. The revised budget, if needed, is also kept on file at the HRA's office.

8. 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

9. Cash Equivalents

For purposes of the statements of cash flows, the HRA considers cash equivalents to include all accounts having an original maturity of three months or less.

B. Cash and Investments

Cash and investments as of December 31, 2006, are classified in the accompanying financial statements as follows:

Statement of net assets	
Cash and cash equivalents	<u>\$ 386,994</u>

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9. Housing and Redevelopment Authority of Douglas County

B. Cash and Investments (Continued)

Cash and investments as of December 31, 2006, consist of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand deposits	<u>\$ 386,994</u>	<u>\$ 402,969</u>

Restricted investments of \$366,210 are entirely invested in money market accounts where the book carrying and the bank balance are the same. All except \$22,856 of these investments are held in trust with a large banking institution.

Investments Authorized by the HRA's Investment Policy

The HRA is required to invest its funds in accordance with Minn. Stat. ch. 118A. The HRA does not have an investment policy with any specific provisions intended to limit its exposure to investment rate risk, credit risk, and concentration of credit risk.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. At year-end, the HRA did not have any investment in certificates of deposit.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Disclosures Relating to Concentration of Credit Risk

The HRA does not have an existing investment policy regarding concentration of credit risk.

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9. Housing and Redevelopment Authority of Douglas County

B. Cash and Investments (Continued)

Disclosures Relating to Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover collateral securities in the possession of an outside party. The HRA does not have an investment policy that would limit the exposure to custodial credit risk for deposits.

The HRA has \$225,825 in deposits with the financial institutions in excess of federal depository insurance limits that were held in uncollateralized accounts at December 31, 2006.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (such as a broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities in the possession of another party. The HRA does not have a policy that would limit custodial credit risk. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

C. Property and Equipment

A summary of changes in property and equipment is as follows:

	Balances January 1, 2006	Additions	Disposals	Balances December 31, 2006
PHA-Owned				
Land and improvements	\$ 263,546	\$ -	\$ -	\$ 263,546
Buildings and improvements	1,719,229	27,646	-	1,746,875
Furniture and equipment	38,752	-	-	38,752
Subtotal	\$ 2,021,527	\$ 27,646	\$ -	\$ 2,049,173
Less: accumulated depreciation	(1,013,838)	(60,270)	-	(1,074,108)
Total PHA-Owned	\$ 1,007,689	\$ (32,624)	\$ -	\$ 975,065

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

C. Property and Equipment (Continued)

	Balances January 1, 2006	Additions	Disposals	Balances December 31, 2006
Housing Choice Vouchers				
Leasehold improvements	\$ 4,177	\$ -	\$ -	\$ 4,177
Office equipment	10,634	-	7,225	3,409
Subtotal	\$ 14,811	\$ -	\$ 7,225	\$ 7,586
Less: accumulated depreciation	(14,811)	-	(7,225)	(7,586)
Total Housing Choice Vouchers	\$ -	\$ -	\$ -	\$ -
RECD				
Land and improvements	\$ 16,179	\$ -	\$ -	\$ 16,179
Buildings and improvements	127,983	-	-	127,983
Furniture and equipment	23,061	5,131	-	28,192
Subtotal	\$ 167,223	\$ 5,131	\$ -	\$ 172,354
Less: accumulated depreciation	(44,586)	(7,230)	-	(51,816)
Total RECD	\$ 122,637	\$ (2,099)	\$ -	\$ 120,538
Administrative Fund				
Furniture and equipment	\$ 71,022	\$ 1,223	\$ 14,269	\$ 57,976
Less: accumulated depreciation	(68,874)	(825)	(14,269)	(55,430)
Total Administrative Fund	\$ 2,148	\$ 398	\$ -	\$ 2,546
Cardinal Estates				
Land and improvements	\$ 86,979	\$ -	\$ -	\$ 86,979
Buildings	1,139,150	-	-	1,139,150
Furniture and equipment	22,380	-	-	22,380
Subtotal	\$ 1,248,509	\$ -	\$ -	\$ 1,248,509
Less: accumulated depreciation	(113,878)	(28,891)	-	(142,769)
Total Cardinal Estates	\$ 1,134,631	\$ (28,891)	\$ -	\$ 1,105,740
Garfield Creamery Project				
Land and improvements	\$ 42,783	\$ -	\$ -	\$ 42,783
Buildings	700,128	-	-	700,128
Furniture and equipment	9,063	-	-	9,063
Subtotal	\$ 751,974	\$ -	\$ -	\$ 751,974
Less: accumulated depreciation	(58,006)	20,228	-	(78,234)
Total Garfield Creamery Project	\$ 693,968	\$ (20,228)	\$ -	\$ 673,740
Totals	\$ 2,961,073	\$ (83,444)	\$ -	\$ 2,877,629

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County (Continued)

D. Lines of Credit

The HRA opened a revolving line of credit on February 23, 2001, with a local financial institution. The maximum available loan is \$50,025. At December 31, 2006, the HRA has not drawn any of the available line, leaving \$50,025 to draw. The line of credit is renewable every six months and carries a floating interest rate at December 31, 2006.

The HRA opened a second revolving line of credit on June 18, 2004, with a local financial institution. The maximum available loan is \$25,000. The line of credit is renewable every six months and carries a floating interest rate. At December 31, 2006, the HRA has drawn \$10,704 of its available line, leaving \$14,296 to draw.

E. Long-Term Obligations

RECD Loan Assumption

As part of the RECD project acquisition, the HRA assumed the previous owner's note payable on the project due to RECD. The note assumed was for \$84,237, with an interest rate of eight percent annually. Monthly payments of \$717, including interest, are required until maturity on May 2, 2018. Interest expense is partially subsidized by RECD each month. The 2006 subsidy totaled \$3,875 and is recorded as both grant revenue and interest expense in these financial statements. The annual requirements to retire this mortgage note are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 3,593	\$ 5,013	\$ 8,606
2008	3,891	4,715	8,606
2009	4,214	4,392	8,606
2010	4,564	4,042	8,606
2011	4,943	3,663	8,606
2012 - 2016	31,591	11,437	43,028
2017 - 2018	11,487	701	12,188
Totals	<u>\$ 64,283</u>	<u>\$ 33,963</u>	<u>\$ 98,246</u>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

E. Long-Term Obligations (Continued)

State of Minnesota Department of Trade and Economic Development Loan

As part of an agreement with the State of Minnesota, the HRA borrowed \$448,000 from the state interest-free to loan to residents of Douglas County for septic system repairs. The loan is payable in semi-annual installments of \$22,400, due each July and December. Proceeds to repay the loan come from repayments by homeowners to the HRA for the individual septic system loans. These payments are collected via special assessments on the individual homeowner's property tax bills. The annual requirements to retire the loan are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 44,800	\$ -	\$ 44,800
2008	44,800	-	44,800
2009	44,800	-	44,800
Totals	<u>\$ 134,400</u>	<u>\$ -</u>	<u>\$ 134,400</u>

General Obligation Housing Bonds

The HRA, in June 2001, issued \$1,500,000 General Obligation Governmental Housing Bonds, Series 2001A. These bonds were issued to finance all costs associated with acquiring needed land and building a ten-unit housing facility on Cardinal Lane in Alexandria, Minnesota, and a two-unit housing facility in Nelson Second Addition in Evansville, Minnesota. The bond issue and related activity is included in this report under the caption of "Cardinal Estates." At December 31, 2001, construction was completed, and the units were available for occupancy. The units were first rented and occupied beginning in February 2002. The annual requirements to retire the bonds are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 15,000	\$ 75,781	\$ 90,781
2008	15,000	75,144	90,144
2009	20,000	74,400	94,400
2010	20,000	73,540	93,540
2011	20,000	72,660	92,660

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

E. Long-Term Obligations

General Obligation Housing Bonds (Continued)

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012 - 2016	150,000	344,494	494,494
2017 - 2021	225,000	298,763	523,763
2022 - 2026	355,000	188,302	543,302
2027 - 2031	520,000	148,841	668,841
2032	130,000	3,575	133,575
Totals	<u>\$ 1,470,000</u>	<u>\$ 1,355,500</u>	<u>\$ 2,825,500</u>

Cardinal Estates - Special Assessments

As part of the Cardinal Estates project, the City of Alexandria extended water lines to the project that was special assessed against the property over a ten-year period. The unpaid balance is also assessed a seven percent interest charge annually. The annual requirements to retire the debt are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 2,012	\$ 727	\$ 2,739
2008	2,012	582	2,594
2009	2,012	436	2,448
2010	2,012	282	2,294
2011	2,012	141	2,153
Totals	<u>\$ 10,060</u>	<u>\$ 2,168</u>	<u>\$ 12,228</u>

Garfield Creamery Apartment Project

Also in June 2001, the HRA borrowed \$38,000 at an interest rate of 7.9 percent to purchase an old creamery building in Garfield, Minnesota. Monthly installments of \$362, including interest, will be made for 15 years to pay off the loan. The balance at December 31, 2006, was \$28,921. The HRA issued bonds in 2002 and used the

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

E. Long-Term Obligations

Garfield Creamery Apartment Project (Continued)

proceeds to rehabilitate the building into apartments for rental purposes. This project is accounted for separately by the HRA. The annual requirements to retire the loan are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 2,136	\$ 2,208	\$ 4,344
2008	2,305	2,039	4,344
2009	2,499	1,845	4,344
2010	2,704	1,640	4,344
2011	2,926	1,418	4,344
2012 - 2016	<u>16,351</u>	<u>5,369</u>	<u>21,720</u>
Totals	<u>\$ 28,921</u>	<u>\$ 14,519</u>	<u>\$ 43,440</u>

As mentioned earlier, the HRA issued 20-year bonds totaling \$685,000 in July 2002 for the purpose of rehabilitating the old Garfield Creamery building into rental apartments for qualified low-income individuals and families. The HRA contributed \$40,000 of its own funds toward the project, which was occupied in 2003. Annual maturities to retire the bonds are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 25,000	\$ 28,169	\$ 53,169
2008	25,000	27,294	52,294
2009	25,000	26,356	51,356
2010	30,000	25,256	55,256
2011	30,000	24,056	54,056
2012 - 2016	170,000	100,173	270,173
2017 - 2021	220,000	54,708	274,708
2022 - 2023	<u>105,000</u>	<u>5,375</u>	<u>110,375</u>
Totals	<u>\$ 630,000</u>	<u>\$ 291,387</u>	<u>\$ 921,387</u>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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9. Housing and Redevelopment Authority of Douglas County (Continued)

F. Employee Retirement Plans

All full-time employees of the HRA are covered by a tax-sheltered annuity, covered under IRC Section 403(b). The HRA contributes up to ten percent of each employee's pay to his or her annuity. For 2006, employee elective deferrals were available to a maximum of \$15,000 annually (\$20,000 for those over age 50). The payroll for employees covered by the plan for the year ended December 31, 2006, was \$304,180, equal to the HRA's total payroll for the year. HRA contributions to the plan for the three years ended December 31, 2006, 2005, and 2004, equaled \$14,629, \$16,563, and \$14,165, respectively.

G. Risk Management

The HRA is exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage for at least the past three fiscal years.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**Schedule 1**

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 7,919,139	\$ 7,919,139	\$ 7,817,288	\$ (101,851)
Special assessments	-	-	10,375	10,375
Licenses and permits	354,100	354,100	326,887	(27,213)
Intergovernmental	2,073,881	2,073,881	2,991,585	917,704
Charges for services	1,576,400	1,576,400	1,826,498	250,098
Fines and forfeits	69,000	69,000	103,562	34,562
Gifts and contributions	12,100	12,100	272,640	260,540
Investment earnings	413,979	413,979	742,932	328,953
Miscellaneous	259,064	259,064	410,170	151,106
<b>Total Revenues</b>	<b>\$ 12,677,663</b>	<b>\$ 12,677,663</b>	<b>\$ 14,501,937</b>	<b>\$ 1,824,274</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 231,711	\$ 231,711	\$ 214,941	\$ 16,770
Courts	39,000	39,000	50,810	(11,810)
Law library	34,000	34,000	31,266	2,734
County auditor/treasurer	400,210	400,210	405,916	(5,706)
License bureau	361,319	361,319	360,041	1,278
County assessor	542,163	542,163	529,916	12,247
Elections	90,000	90,000	435,713	(345,713)
Accounting and auditing	50,000	50,000	47,181	2,819
Information systems	612,561	546,795	651,343	(104,548)
Central services	406,000	406,000	441,299	(35,299)
Coordinator	229,421	229,421	225,953	3,468
Attorney	694,096	694,096	708,376	(14,280)
Recorder	438,011	438,011	287,345	150,666
Planning and zoning	457,159	457,159	403,984	53,175
Buildings and plant	894,233	894,233	932,905	(38,672)
Veterans service officer	145,616	145,616	139,895	5,721
Humane society	7,793	7,793	7,793	-
<b>Total general government</b>	<b>\$ 5,633,293</b>	<b>\$ 5,567,527</b>	<b>\$ 5,874,677</b>	<b>\$ (307,150)</b>
<b>Public safety</b>				
Sheriff	\$ 2,248,246	\$ 2,264,543	\$ 2,288,106	\$ (23,563)
Boat and water safety	91,664	91,664	93,792	(2,128)
Coroner	23,000	23,000	20,978	2,022
E-911 system	46,000	46,000	80,356	(34,356)
County jail	2,558,986	2,558,986	2,905,612	(346,626)
Community corrections	385,211	385,211	438,981	(53,770)
Dispatch	508,324	508,324	626,542	(118,218)
Emergency management	54,655	54,655	65,836	(11,181)
<b>Total public safety</b>	<b>\$ 5,916,086</b>	<b>\$ 5,932,383</b>	<b>\$ 6,520,203</b>	<b>\$ (587,820)</b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**Schedule 1**  
**(Continued)**

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Health</b>				
Crime Victim Services	\$ 6,235	\$ 6,235	\$ 6,235	\$ -
<b>Culture and recreation</b>				
Historical society	\$ 4,000	\$ 4,000	\$ 4,000	\$ -
DATA trails	-	-	203,155	(203,155)
Central Minnesota elder network	6,000	6,000	6,000	-
<b>Total culture and recreation</b>	<b>\$ 10,000</b>	<b>\$ 10,000</b>	<b>\$ 213,155</b>	<b>\$ (203,155)</b>
<b>Conservation of natural resources</b>				
Cooperative extension	\$ 144,756	\$ 144,756	\$ 134,406	\$ 10,350
Soil and water conservation	156,320	156,320	194,231	(37,911)
Agricultural society/County fair	4,000	4,000	4,000	-
Chippewa River watershed sewer project	-	-	12,350	(12,350)
<b>Total conservation of natural resources</b>	<b>\$ 305,076</b>	<b>\$ 305,076</b>	<b>\$ 344,987</b>	<b>\$ (39,911)</b>
<b>Economic development</b>				
Administration - housing authority	\$ 33,795	\$ 33,795	\$ 33,277	\$ 518
Other	8,000	8,000	8,000	-
<b>Total economic development</b>	<b>\$ 41,795</b>	<b>\$ 41,795</b>	<b>\$ 41,277</b>	<b>\$ 518</b>
<b>Capital outlay</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 790,079</b>	<b>\$ (790,079)</b>
<b>Debt service</b>				
Principal	\$ 117,396	\$ 117,396	\$ 119,499	\$ (2,103)
Interest	\$ 11,451	\$ 11,451	\$ 5,252	\$ 6,199
<b>Total Expenditures</b>	<b>\$ 12,041,332</b>	<b>\$ 11,991,863</b>	<b>\$ 13,915,364</b>	<b>\$ (1,923,501)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 636,331</b>	<b>\$ 685,800</b>	<b>\$ 586,573</b>	<b>\$ (99,227)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	\$ (636,331)	\$ (636,331)	\$ (623,196)	\$ 13,135
Proceeds from promissory notes	-	-	12,350	12,350
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (636,331)</b>	<b>\$ (636,331)</b>	<b>\$ (610,846)</b>	<b>\$ 25,485</b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

*Schedule 1*  
*(Continued)*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Net Change in Fund Balance	\$ -	\$ 49,469	\$ (24,273)	\$ (73,742)
Fund Balance - January 1	<u>7,619,614</u>	<u>7,619,614</u>	<u>7,619,614</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 7,619,614</u>	<u>\$ 7,669,083</u>	<u>\$ 7,595,341</u>	<u>\$ (73,742)</u>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
PUBLIC WORKS SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 2,344,058	\$ 2,344,058	\$ 2,399,451	\$ 55,393
Special assessments	-	-	1,320	1,320
Intergovernmental	3,678,742	3,678,742	4,377,439	698,697
Charges for services	427,700	427,700	302,273	(125,427)
Investment earnings	900	900	2,360	1,460
Miscellaneous	135,100	135,100	402,028	266,928
<b>Total Revenues</b>	<b>\$ 6,586,500</b>	<b>\$ 6,586,500</b>	<b>\$ 7,484,871</b>	<b>\$ 898,371</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Surveyor	\$ 374,267	\$ 440,033	\$ 431,467	\$ 8,566
<b>Highways and streets</b>				
Administration	\$ 540,727	\$ 540,727	\$ 424,790	\$ 115,937
Maintenance	1,734,913	1,734,913	1,927,467	(192,554)
Construction	4,066,776	4,066,776	4,484,294	(417,518)
Equipment maintenance and shop	652,719	652,719	521,836	130,883
Materials and services for resale	512,618	512,618	631,863	(119,245)
Central fueling	-	-	2,914	(2,914)
Other	140,000	140,000	145,265	(5,265)
<b>Total highways and streets</b>	<b>\$ 7,647,753</b>	<b>\$ 7,647,753</b>	<b>\$ 8,138,429</b>	<b>\$ (490,676)</b>
<b>Culture and recreation</b>				
Parks	\$ 264,433	\$ 264,433	\$ 302,492	\$ (38,059)
<b>Conservation of natural resources</b>				
Agriculture inspection	\$ 20,047	\$ 20,047	\$ 43,447	\$ (23,400)
<b>Intergovernmental</b>				
Highways and streets	\$ 260,000	\$ 260,000	\$ 252,875	\$ 7,125
<b>Total Expenditures</b>	<b>\$ 8,566,500</b>	<b>\$ 8,632,266</b>	<b>\$ 9,168,710</b>	<b>\$ (536,444)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (1,980,000)</b>	<b>\$ (2,045,766)</b>	<b>\$ (1,683,839)</b>	<b>\$ 361,927</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	1,980,000	1,980,000	1,590,719	(389,281)
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ (65,766)</b>	<b>\$ (93,120)</b>	<b>\$ (27,354)</b>
<b>Fund Balance - January 1</b>	<b>1,195,021</b>	<b>1,195,021</b>	<b>1,195,021</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>(26,044)</b>	<b>(26,044)</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,195,021</b>	<b>\$ 1,129,255</b>	<b>\$ 1,075,857</b>	<b>\$ (53,398)</b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

*Schedule 3*

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 3,115,916	\$ 3,115,916	\$ 3,098,841	\$ (17,075)
Licenses and permits	11,600	11,600	12,134	534
Intergovernmental	4,474,904	4,474,904	4,598,165	123,261
Charges for services	500	500	8,388	7,888
Miscellaneous	125,000	125,000	142,556	17,556
<b>Total Revenues</b>	<b>\$ 7,727,920</b>	<b>\$ 7,727,920</b>	<b>\$ 7,860,084</b>	<b>\$ 132,164</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 2,075,027	\$ 2,075,027	\$ 2,100,612	\$ (25,585)
Social services	5,652,893	5,652,893	5,464,088	188,805
<b>Total Expenditures</b>	<b>\$ 7,727,920</b>	<b>\$ 7,727,920</b>	<b>\$ 7,564,700</b>	<b>\$ 163,220</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 295,384</b>	<b>\$ 295,384</b>
<b>Fund Balance - January 1</b>	<b>1,957,855</b>	<b>1,957,855</b>	<b>1,957,855</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,957,855</b>	<b>\$ 1,957,855</b>	<b>\$ 2,253,239</b>	<b>\$ 295,384</b>

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**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

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

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1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Ditch Special Revenue Fund, Forfeited Tax Sale Special Revenue Fund, and the Capital Projects Fund. All annual appropriations lapse at fiscal year-end.

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the Douglas 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 head 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 budgetary amendments. 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

For the year ended December 31, 2006, expenditures exceeded appropriations in the General Fund and the Public Works Special Revenue Fund by \$1,923,501 and \$536,444, respectively. These expenditures in excess of budget were funded by greater than anticipated revenues.

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**SUPPLEMENTARY INFORMATION**

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**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Ditch Fund is used to account for the cost of constructing and maintaining an agricultural drainage ditch system. Financing is provided by special assessments levied against benefited property.

The Library Fund accounts for the operations of the County library. Financing is provided by an annual tax levy and an appropriation from the City of Alexandria.

The Public Health Nurse Fund is used to account for providing nursing service care to the elderly and other residents of Douglas County. All activities necessary to provide such services are accounted for in this fund. Financing is provided by health care service grants, County contributions, and user service charges.

The Forfeited Tax Sale Fund accounts for funds collected per state statute for forfeited tax sales.

DEBT SERVICE FUND

The Bonds and Interest Fund accounts for accumulation of resources for, and payment of, principal and interest on general long-term debt.

CAPITAL PROJECTS FUND

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

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**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

*Statement A-1*

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

	<b>Special Revenue (Statement B-1)</b>	<b>Bonds and Interest Debt Service</b>	<b>Capital Projects</b>	<b>Total (Exhibit 3)</b>
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 2,199,951	\$ 1,811,747	\$ 427,380	\$ 4,439,078
Undistributed cash in agency funds	20,136	30,673	6	50,815
Investments	215,049	-	1,100,093	1,315,142
Taxes receivable				
Current	23,446	38,979	-	62,425
Prior	4,530	5,716	933	11,179
Special assessments receivable				
Current	525	2,782	-	3,307
Prior	693	-	-	693
Noncurrent	161,563	471,291	-	632,854
Accounts receivable	204,727	-	-	204,727
Accrued interest receivable	2,049	-	9,290	11,339
Contracts receivable	10,888	-	-	10,888
Due from other funds	7,041	4,836	-	11,877
Due from other governments	389,017	-	-	389,017
Prepaid items	1,521	-	-	1,521
<b>Total Assets</b>	<b>\$ 3,241,136</b>	<b>\$ 2,366,024</b>	<b>\$ 1,537,702</b>	<b>\$ 7,144,862</b>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 50,267	\$ -	\$ 354	\$ 50,621
Salaries payable	100,692	-	-	100,692
Due to other funds	23,439	-	-	23,439
Due to other governments	12,765	-	-	12,765
Deferred revenue - unavailable	393,668	473,428	878	867,974
Compensated absences payable	10,285	-	-	10,285
Advance from other funds	192,500	-	-	192,500
<b>Total Liabilities</b>	<b>\$ 783,616</b>	<b>\$ 473,428</b>	<b>\$ 1,232</b>	<b>\$ 1,258,276</b>
<b>Fund Balances</b>				
Reserved for library fund drive	\$ 158,273	\$ -	\$ -	\$ 158,273
Unreserved				
Designated for debt service	-	1,892,596	-	1,892,596
Designated for capital improvements	88,114	-	-	88,114
Undesignated	2,211,133	-	1,536,470	3,747,603
<b>Total Fund Balances</b>	<b>\$ 2,457,520</b>	<b>\$ 1,892,596</b>	<b>\$ 1,536,470</b>	<b>\$ 5,886,586</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,241,136</b>	<b>\$ 2,366,024</b>	<b>\$ 1,537,702</b>	<b>\$ 7,144,862</b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

*Statement A-2*

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

	Special Revenue (Statement B-2)	Bonds and Interest Debt Service	Capital Projects	Total (Exhibit 5)
<b>Revenues</b>				
Taxes	\$ 1,051,215	\$ 1,752,666	\$ 61	\$ 2,803,942
Special assessments	66,751	106,498	-	173,249
Licenses and permits	119,077	-	-	119,077
Intergovernmental	796,713	310,082	-	1,106,795
Charges for services	2,537,586	-	-	2,537,586
Fines and forfeits	33,293	-	-	33,293
Gifts and contributions	92,257	-	-	92,257
Investment earnings	9,301	10,458	79,987	99,746
Miscellaneous	120,015	-	-	120,015
<b>Total Revenues</b>	<b>\$ 4,826,208</b>	<b>\$ 2,179,704</b>	<b>\$ 80,048</b>	<b>\$ 7,085,960</b>
<b>Expenditures</b>				
<b>Current</b>				
General government	\$ -	\$ -	\$ 5	\$ 5
Health	2,820,191	-	-	2,820,191
Culture and recreation	902,364	-	-	902,364
Conservation of natural resources	188,314	-	-	188,314
<b>Capital outlay</b>	<b>-</b>	<b>-</b>	<b>207,547</b>	<b>207,547</b>
<b>Debt service</b>				
Principal	-	1,265,000	-	1,265,000
Interest	-	522,674	-	522,674
Administrative (fiscal) charges	-	3,392	-	3,392
<b>Total Expenditures</b>	<b>\$ 3,910,869</b>	<b>\$ 1,791,066</b>	<b>\$ 207,552</b>	<b>\$ 5,909,487</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 915,339</b>	<b>\$ 388,638</b>	<b>\$ (127,504)</b>	<b>\$ 1,176,473</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ 623,196	\$ -	\$ 623,196
Transfers out	-	-	(1,590,719)	(1,590,719)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ 623,196</b>	<b>\$ (1,590,719)</b>	<b>\$ (967,523)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 915,339</b>	<b>\$ 1,011,834</b>	<b>\$ (1,718,223)</b>	<b>\$ 208,950</b>
<b>Fund Balance - January 1</b>	<b>1,542,181</b>	<b>880,762</b>	<b>3,254,693</b>	<b>5,677,636</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,457,520</b>	<b>\$ 1,892,596</b>	<b>\$ 1,536,470</b>	<b>\$ 5,886,586</b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**Statement B-1**

**COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
DECEMBER 31, 2006**

	<b>Ditch</b>	<b>Library</b>	<b>Public Health Nurse</b>	<b>Forfeited Tax Sale</b>	<b>Total (Statement A-1)</b>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 43,420	\$ 513,393	\$ 1,625,326	\$ 17,812	\$ 2,199,951
Undistributed cash in agency funds	1,756	10,198	8,182	-	20,136
Investments	-	88,114	126,935	-	215,049
Taxes receivable					
Current	-	13,012	10,434	-	23,446
Prior	-	2,845	1,685	-	4,530
Special assessments receivable					
Current	525	-	-	-	525
Prior	693	-	-	-	693
Noncurrent	161,563	-	-	-	161,563
Accounts receivable	875	2,750	201,102	-	204,727
Accrued interest receivable	-	100	1,949	-	2,049
Contracts receivable	-	-	-	10,888	10,888
Due from other funds	7,041	-	-	-	7,041
Due from other governments	10,778	-	378,239	-	389,017
Prepaid items	-	1,521	-	-	1,521
<b>Total Assets</b>	<b>\$ 226,651</b>	<b>\$ 631,933</b>	<b>\$ 2,353,852</b>	<b>\$ 28,700</b>	<b>\$ 3,241,136</b>
<b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ 1,783	\$ 48,484	\$ -	\$ 50,267
Salaries payable	-	16,323	84,369	-	100,692
Due to other funds	6,973	545	7,942	7,979	23,439
Due to other governments	-	44	2,888	9,833	12,765
Deferred revenue - unavailable	173,127	11,161	198,492	10,888	393,668
Advance from other funds	192,500	-	-	-	192,500
Compensated absences payable	-	-	10,285	-	10,285
<b>Total Liabilities</b>	<b>\$ 372,600</b>	<b>\$ 29,856</b>	<b>\$ 352,460</b>	<b>\$ 28,700</b>	<b>\$ 783,616</b>
<b>Fund Balances</b>					
Reserved for library fund drive	\$ -	\$ 158,273	\$ -	\$ -	\$ 158,273
Unreserved					
Designated for capital improvements	-	88,114	-	-	88,114
Undesignated	(145,949)	355,690	2,001,392	-	2,211,133
<b>Total Fund Balances</b>	<b>\$ (145,949)</b>	<b>\$ 602,077</b>	<b>\$ 2,001,392</b>	<b>\$ -</b>	<b>\$ 2,457,520</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 226,651</b>	<b>\$ 631,933</b>	<b>\$ 2,353,852</b>	<b>\$ 28,700</b>	<b>\$ 3,241,136</b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

*Statement B-2*

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

	<u>Ditch</u>	<u>Library</u>	<u>Public Health Nurse</u>	<u>Forfeited Tax Sale</u>	<u>Total (Statement A-2)</u>
<b>Revenues</b>					
Taxes	\$ -	\$ 583,180	\$ 468,035	\$ -	\$ 1,051,215
Special assessments	66,751	-	-	-	66,751
Licenses and permits	-	-	119,077	-	119,077
Intergovernmental	-	111,538	685,175	-	796,713
Charges for services	-	3,588	2,533,998	-	2,537,586
Fines and forfeits	-	33,293	-	-	33,293
Gifts and contributions	-	28,245	64,012	-	92,257
Investment earnings	-	3,879	5,422	-	9,301
Miscellaneous	-	200	103,070	16,745	120,015
<b>Total Revenues</b>	<b>\$ 66,751</b>	<b>\$ 763,923</b>	<b>\$ 3,978,789</b>	<b>\$ 16,745</b>	<b>\$ 4,826,208</b>
<b>Expenditures</b>					
<b>Current</b>					
Health	\$ -	\$ -	\$ 2,820,191	\$ -	\$ 2,820,191
Culture and recreation	-	705,159	197,205	-	902,364
Conservation of natural resources	171,569	-	-	16,745	188,314
<b>Total Expenditures</b>	<b>\$ 171,569</b>	<b>\$ 705,159</b>	<b>\$ 3,017,396</b>	<b>\$ 16,745</b>	<b>\$ 3,910,869</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (104,818)</b>	<b>\$ 58,764</b>	<b>\$ 961,393</b>	<b>\$ -</b>	<b>\$ 915,339</b>
<b>Fund Balance - January 1</b>	<b>(41,131)</b>	<b>543,313</b>	<b>1,039,999</b>	<b>-</b>	<b>1,542,181</b>
<b>Fund Balance - December 31</b>	<b>\$ (145,949)</b>	<b>\$ 602,077</b>	<b>\$ 2,001,392</b>	<b>\$ -</b>	<b>\$ 2,457,520</b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

*Schedule 4*

**BUDGETARY COMPARISON SCHEDULE  
LIBRARY SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 586,356	\$ 586,356	\$ 583,180	\$ (3,176)
Intergovernmental	107,795	107,795	111,538	3,743
Charges for services	3,575	3,575	3,588	13
Fines and forfeits	26,000	26,000	33,293	7,293
Gifts and contributions	3,000	3,000	28,245	25,245
Investment earnings	-	-	3,879	3,879
Miscellaneous	-	-	200	200
<b>Total Revenues</b>	<b>\$ 726,726</b>	<b>\$ 726,726</b>	<b>\$ 763,923</b>	<b>\$ 37,197</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Culture and recreation</b>				
County library	726,726	726,726	705,159	21,567
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 58,764</b>	<b>\$ 58,764</b>
<b>Fund Balance - January 1</b>	<b>543,313</b>	<b>543,313</b>	<b>543,313</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 543,313</b>	<b>\$ 543,313</b>	<b>\$ 602,077</b>	<b>\$ 58,764</b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

*Schedule 5*

**BUDGETARY COMPARISON SCHEDULE  
PUBLIC HEALTH NURSE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 470,072	\$ 471,795	\$ 468,035	\$ (3,760)
Licenses and permits	118,000	118,000	119,077	1,077
Intergovernmental	564,954	563,231	685,175	121,944
Charges for services	1,432,240	1,432,240	2,533,998	1,101,758
Gifts and contributions	23,800	23,800	64,012	40,212
Investment earnings	2,300	2,300	5,422	3,122
Miscellaneous	7,816	7,816	103,070	95,254
<b>Total Revenues</b>	<b>\$ 2,619,182</b>	<b>\$ 2,619,182</b>	<b>\$ 3,978,789</b>	<b>\$ 1,359,607</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Health</b>				
Nursing service	\$ 2,422,955	\$ 2,422,955	\$ 2,820,191	\$ (397,236)
<b>Culture and recreation</b>				
Senior citizens	196,227	196,227	197,205	(978)
<b>Total Expenditures</b>	<b>\$ 2,619,182</b>	<b>\$ 2,619,182</b>	<b>\$ 3,017,396</b>	<b>\$ (398,214)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 961,393</b>	<b>\$ 961,393</b>
<b>Fund Balance - January 1</b>	<b>1,039,999</b>	<b>1,039,999</b>	<b>1,039,999</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,039,999</b>	<b>\$ 1,039,999</b>	<b>\$ 2,001,392</b>	<b>\$ 961,393</b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

*Schedule 6*

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,756,880	\$ 1,756,880	\$ 1,752,666	\$ (4,214)
Special assessments	94,768	94,768	106,498	11,730
Intergovernmental	321,975	321,975	310,082	(11,893)
Investment earnings	-	-	10,458	10,458
<b>Total Revenues</b>	<b>\$ 2,173,623</b>	<b>\$ 2,173,623</b>	<b>\$ 2,179,704</b>	<b>\$ 6,081</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 1,570,000	\$ 1,063,834	\$ 1,265,000	\$ (201,166)
Interest	503,561	920,351	522,674	397,677
Administrative (fiscal) charges	100,062	189,438	3,392	186,046
<b>Total Expenditures</b>	<b>\$ 2,173,623</b>	<b>\$ 2,173,623</b>	<b>\$ 1,791,066</b>	<b>\$ 382,557</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 388,638</b>	<b>\$ 388,638</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	623,196	623,196
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,011,834</b>	<b>\$ 1,011,834</b>
<b>Fund Balance - January 1</b>	<b>880,762</b>	<b>880,762</b>	<b>880,762</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 880,762</b>	<b>\$ 880,762</b>	<b>\$ 1,892,596</b>	<b>\$ 1,011,834</b>

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**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

The Flexible Spending Plans Fund accounts for the payroll deductions of employees enrolled in the flexible spending program.

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

The Other Collections Fund accounts for prepayment of taxes until tax statements are prepared and the collected taxes can be properly distributed.

The Mental Health Collaborative Fund accounts for the collection and payment of state and federal grants and membership contributions for the Collaborative.

The Flood Control Board Fund accounts for the collections and payments for the joint venture.

The West Central Minnesota Drug Task Force Fund accounts for the collection and payment of special drug-related investigations for the Task Force.

The Prime West Fund accounts for collections and payments for the joint venture.

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

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**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

*Statement C-1*

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

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>FLEXIBLE SPENDING PLANS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 12,328	\$ 313,743	\$ 308,457	\$ 17,614
<b><u>Liabilities</u></b>				
Accounts payable	\$ 12,328	\$ 313,743	\$ 308,457	\$ 17,614
 <b><u>STATE REVENUE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 174,556	\$ 1,880,401	\$ 1,929,867	\$ 125,090
Accounts receivable	16,422	15,170	16,422	15,170
<b>Total Assets</b>	<b>\$ 190,978</b>	<b>\$ 1,895,571</b>	<b>\$ 1,946,289</b>	<b>\$ 140,260</b>
<b><u>Liabilities</u></b>				
Due to other governments	\$ 190,978	\$ 1,895,571	\$ 1,946,289	\$ 140,260
 <b><u>OTHER COLLECTIONS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 28,544	\$ 101,843	\$ 105,416	\$ 24,971
<b><u>Liabilities</u></b>				
Due to other governments	\$ 28,544	\$ 101,843	\$ 105,416	\$ 24,971

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

*Statement C-1  
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>MENTAL HEALTH COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 237,380	\$ 156,615	\$ 298,941	\$ 95,054
<b><u>Liabilities</u></b>				
Due to other governments	\$ 237,380	\$ 156,615	\$ 298,941	\$ 95,054
 <b><u>FLOOD CONTROL BOARD</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 36,010	\$ 2,205	\$ 1,285	\$ 36,930
<b><u>Liabilities</u></b>				
Due to other governments	\$ 36,010	\$ 2,205	\$ 1,285	\$ 36,930
 <b><u>WEST CENTRAL MINNESOTA DRUG TASK FORCE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 180,037	\$ 199,572	\$ 193,417	\$ 186,192
<b><u>Liabilities</u></b>				
Due to other governments	\$ 180,037	\$ 199,572	\$ 193,417	\$ 186,192

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

*Statement C-1  
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>PRIME WEST</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 2,041,383	\$ 2,041,383	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 2,041,383	\$ 2,041,383	\$ -
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 366,885	\$ 41,030,104	\$ 40,914,275	\$ 482,714
Accounts receivable	-	2,316	-	2,316
<b>Total Assets</b>	<b>\$ 366,885</b>	<b>\$ 41,032,420</b>	<b>\$ 40,914,275</b>	<b>\$ 485,030</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 2,294	\$ -	\$ 2,294	\$ -
Due to other governments	364,591	41,032,420	40,911,981	485,030
<b>Total Liabilities</b>	<b>\$ 366,885</b>	<b>\$ 41,032,420</b>	<b>\$ 40,914,275</b>	<b>\$ 485,030</b>
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 1,035,740	\$ 45,725,866	\$ 45,793,041	\$ 968,565
Accounts receivable	16,422	17,486	16,422	17,486
<b>Total Assets</b>	<b>\$ 1,052,162</b>	<b>\$ 45,743,352</b>	<b>\$ 45,809,463</b>	<b>\$ 986,051</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 14,622	\$ 313,743	\$ 310,751	\$ 17,614
Due to other governments	1,037,540	45,429,609	45,498,712	968,437
<b>Total Liabilities</b>	<b>\$ 1,052,162</b>	<b>\$ 45,743,352</b>	<b>\$ 45,809,463</b>	<b>\$ 986,051</b>

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## **OTHER SCHEDULES**

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**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

*Schedule 7*

**SCHEDULE OF DEPOSITS AND INVESTMENTS  
DECEMBER 31, 2006**

	<b>Number</b>	<b>Interest Rate (%)</b>	<b>Maturity Date</b>	<b>Fair Value</b>
<b>Deposits and Investments</b>				
Cash on hand and departmental checking	N/A	N/A	N/A	\$ 48,735
Interest-bearing checking	3	Variable	Continuous	10,012,190
Non-interest bearing checking	1	N/A	N/A	(828,800)
Money market savings	1	Variable	Continuous	23,229
Certificates of deposit	19	4.15 to 5.55	January 8, 2007 to January 2, 2008	2,382,265
Money market savings with brokers	9	Variable	Continuous	536,550
Certificates of deposit with brokers	16	3.00 to 5.35	January 5, 2007 to July 9, 2013	1,361,120
Metlife (donated)				250,084
Medtronic stock (donated)		0.82	Continuous	5,886
Federal Farm Credit Bank	1	3.40	September 29, 2008	481,388
Federal Home Loan Bank	44	2.75 to 5.50	February 9, 2007 to July 2, 2015	14,792,533
Federal Home Loan Mortgage Corporation	19	3.50 to 5.00	November 13, 2007 to February 25, 2015	4,724,328
Federal National Mortgage Association	21	3.125 to 5.10	March 28, 2007 to November 28, 2014	9,002,909
Government National Mortgage Associator	1	9.00	March 15, 2009	565
Repurchase agreement	1	4.64	Continuous	3,623,550
Commercial paper	1	5.176	January 5, 2007	1,010,849
<b>Total Deposits and Investments</b>				<b><u>\$ 47,427,381</u></b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**BALANCE SHEET - BY DITCH  
DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Cash	Undistributed Cash in Agency Fund	Special Current
<b>Joint Ditches</b>			
2	\$ 1,548	\$ -	\$ -
3	8,340	567	-
4	925	-	19
<b>County Ditches</b>			
1	510	53	46
3	1,541	428	40
4 and 16	5,249	108	340
5	1,039	19	-
6	961	131	-
8	726	131	80
9	4,119	-	-
10	1,222	-	-
11	1,451	-	-
13	1,272	-	-
14	990	236	-
17	1,063	83	-
21	4,516	-	-
22	4,278	-	-
23	3,505	-	-
98	165	-	-
<b>Total</b>	<b>\$ 43,420</b>	<b>\$ 1,756</b>	<b>\$ 525</b>

**Schedule 8**

<b>Assets</b>						
<b>Assessments Receivable</b>		<b>Accounts Receivable</b>	<b>Due from Other Funds</b>	<b>Due from Other Governments</b>	<b>Total</b>	
<b>Prior</b>	<b>Deferred</b>					
\$ -	\$ 59,608	\$ 875	\$ 5,562	\$ 5,377	\$ 72,970	
95	8,609	-	123	209	17,943	
-	26,705	-	135	62	27,846	
5	3,433	-	-	139	4,186	
-	17,177	-	227	2,759	22,172	
-	8,117	-	445	412	14,671	
-	731	-	-	133	1,922	
-	2,198	-	-	123	3,413	
-	825	-	-	981	2,743	
593	-	-	-	-	4,712	
-	4,641	-	-	32	5,895	
-	1,381	-	-	4	2,836	
-	900	-	-	33	2,205	
-	1,038	-	-	-	2,264	
-	6,146	-	428	454	8,174	
-	-	-	-	-	4,516	
-	-	-	-	-	4,278	
-	-	-	-	-	3,505	
-	20,054	-	121	60	20,400	
<b>\$ 693</b>	<b>\$ 161,563</b>	<b>\$ 875</b>	<b>\$ 7,041</b>	<b>\$ 10,778</b>	<b>\$ 226,651</b>	

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**BALANCE SHEET - BY DITCH  
DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Due to Other Funds</u>	<u>Deferred Revenue</u>
<b>Joint Ditches</b>		
2	\$ 2,424	\$ 64,985
3	349	8,913
4	635	26,767
<b>County Ditches</b>		
1	231	3,590
3	415	19,936
4 and 16	468	8,529
5	63	864
6	88	2,321
8	74	1,886
9	880	593
10	197	4,675
11	41	1,384
13	336	932
14	31	1,038
17	123	6,600
21	16	-
22	154	-
23	166	-
98	282	20,114
<b>Total</b>	<u><u>\$ 6,973</u></u>	<u><u>\$ 173,127</u></u>

**Schedule 8**  
**(Continued)**

<b>Liabilities</b>			<b>Balance</b>			<b>Liabilities</b>	
<b>Advance</b>			<b>Unreserved</b>			<b>and Fund</b>	
<b>from Other</b>			<b>Undesignated</b>			<b>Balance</b>	
<b>Funds</b>		<b>Total</b>					
\$	2,500	\$	69,909	\$	3,061	\$	72,970
	-		9,262		8,681		17,943
	39,000		66,402		(38,556)		27,846
	1,750		5,571		(1,385)		4,186
	98,000		118,351		(96,179)		22,172
	-		8,997		5,674		14,671
	1,000		1,927		(5)		1,922
	6,750		9,159		(5,746)		3,413
	-		1,960		783		2,743
	-		1,473		3,239		4,712
	20,000		24,872		(18,977)		5,895
	-		1,425		1,411		2,836
	-		1,268		937		2,205
	500		1,569		695		2,264
	15,000		21,723		(13,549)		8,174
	-		16		4,500		4,516
	-		154		4,124		4,278
	-		166		3,339		3,505
	8,000		28,396		(7,996)		20,400
<b>\$</b>	<b>192,500</b>	<b>\$</b>	<b>372,600</b>	<b>\$</b>	<b>(145,949)</b>	<b>\$</b>	<b>226,651</b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**Schedule 9**

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

**Shared Revenue**

**State**

Highway users tax	\$	3,883,047
PERA rate reimbursement		47,124
Disparity reduction aid		6,775
Police aid		123,321
Program aid		1,359,781
E-911		113,801
Market value credit		1,525,223
Mobile home market value credit		9,409

**Total shared revenue** **\$ 7,068,481**

**Reimbursement for Services**

Minnesota Department of Human Services	\$	1,838,269
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**Payments**

**Local**

Wellness grant	\$	25,545
Other		1,050
Local contributions		1,040
Payments in lieu of taxes		275,133

**Total payments** **\$ 302,768**

**Grants**

**State**

Minnesota Department of Corrections	\$	165,593
Public Safety		7,375
Health		184,872
Natural Resources		246,628
Human Services		1,382,763
Water and Soil Resources Board		99,558
Peace Officer Standards and Training Board		10,129
Other		4,800

**Total state** **\$ 2,101,718**

**Federal**

Department of Agriculture	\$	163,491
Justice		3,140
Education		1,023
Health and Human Services		1,112,440
Homeland Security		23,642
Environmental Protection Agency		14,574
Election Assistance Commission		355,000

**Total federal** **\$ 1,762,748**

**Total state and federal grants** **\$ 3,864,466**

**Total Intergovernmental Revenue** **\$ 13,073,984**

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**Schedule 9**  
***(Continued)***

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

Revenues on this schedule differ from expenditures on the Schedule of Expenditures of Federal Awards (Schedule 11) due to timing differences in revenue recognition under the modified accrual basis of accounting. The individual grants affected are:

Total federal revenue per Schedule of Intergovernmental Revenue (Schedule 9)	\$ 1,762,748
WIC	(28,101)
Homeland Security Grant Program	<u>30,694</u>
<b>Total Federal Awards per Schedule of Expenditures of Federal Awards (Schedule 11)</b>	<b><u><u>\$ 1,765,341</u></u></b>

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**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

*Schedule 10*

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

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

- A. Our report expresses unqualified opinions on the basic financial statements of Douglas County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Douglas County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Douglas County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Douglas County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Help America Vote Act	CFDA #90.401
Social Services Block Grant - Title XX	CFDA #93.667
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Douglas County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-4 Segregation of Duties

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

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

Client's Response:

*Douglas County is aware of this finding and will continue to implement oversight procedures to ensure that internal control policies are being followed.*

ITEM ARISING THIS YEAR

06-1 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect misstatements of the financial statements on a timely basis. Statement on Auditing Standards No. 112 states that control deficiencies that shall be regarded as at least significant deficiencies are the identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement, and a restatement of previously issued financial statements to reflect the correction of a material misstatement.

During our audit, we identified the following material adjustments to the governmental activities reported in the government-wide financial statements: \$999,927 was reclassified to properly reflect consolidated assets of the Internal Service Fund, and a prior period adjustment was made to decrease the governmental activities' net assets by \$969,300 to correct the estimated liability for compensated absences.

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

We recommend the County establish internal procedures for reviewing adjustments and lead schedules to ensure amounts are correctly reported in accordance with GAAP in the County's annual financial statements.

Client's Response:

*Douglas County will make every reasonable effort to ensure amounts are correctly reported in accordance with GAAP in the County's annual financial statements.*

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-6 Ditch Special Revenue Fund Deficit

Eight of the 19 ditch systems had deficit fund balances as of December 31, 2006, totaling \$182,393, the largest being \$96,179. These eight ditch deficits combine with the remaining ditch systems to leave the Ditch Special Revenue Fund with a total fund balance deficit of \$145,949. Minn. Stat. § 103E.735, subd. 1, provides that a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

We recommend that the County eliminate the individual ditch deficit fund balances by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus balance to provide for the repair and maintenance costs of a ditch system.

Client's Response:

*Douglas County anticipates making continued progress towards eliminating this deficit over the next several years.*

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

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

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

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

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

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## **OTHER REQUIRED REPORTS**

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

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

Board of County Commissioners  
Douglas County

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Douglas County, Minnesota, as of and for the year ended December 31, 2006, and have issued our report thereon dated December 14, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Douglas County Hospital Operating Enterprise Fund and the Housing and Redevelopment Authority of Douglas County, a discretely presented component unit, as described in our report on Douglas County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-4 and 06-1 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe neither of the significant deficiencies described above is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Douglas 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, Douglas County complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Questioned Costs are a management practices comment and an other item for consideration. We believe these recommendations and information to be of benefit to Douglas County, and they are reported for that purpose.

Douglas County's written responses to the significant deficiencies identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 14, 2007

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

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

Board of County Commissioners  
Douglas County

### Compliance

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

Douglas County's financial statements include the operations of the Douglas County Hospital Operating Enterprise Fund and the Housing and Redevelopment Authority of Douglas County (HRA), a discretely presented component unit. The Hospital and the HRA expended \$689,764 and \$1,047,282, respectively, in federal awards during the year ended December 31, 2006, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Hospital and the HRA because the Hospital and the HRA had separate single audits in accordance with OMB Circular A-133.

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

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Douglas County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

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

### Internal Control Over Compliance

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

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Douglas County as of and for the year ended December 31, 2006, and have issued our report thereon dated December 14, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Douglas County's basic financial statements. Our audit did not include the Hospital Operating Enterprise Fund or the Housing and Redevelopment Authority of Douglas County, a component unit, which were audited by other auditors. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

December 14, 2007

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

*Schedule 11*

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 122,661
Passed Through Minnesota Department of Human Services State Administrative Matching Grant for Food Stamp Program	10.561	<u>12,729</u>
<b>Total U.S. Department of Agriculture</b>		<b>\$ 135,390</b>
<b>U.S. Department of Justice</b>		
Passed Through Minnesota Department of Public Safety Public Safety Partnership Community Policing Grant	16.710	\$ 1,956
Enforcing Underage Drinking Laws Program	16.727	<u>1,184</u>
<b>Total U.S. Department of Justice</b>		<b>\$ 3,140</b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	20.005	\$ 20,862
Recreational Trails Program	20.219	18,907
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	28,118
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	<u>21,551</u>
<b>Total U.S. Department of Transportation</b>		<b>\$ 89,438</b>
<b>U.S. Environmental Protection Agency</b>		
Passed Through Minnesota Department of Health State Indoor Radon Grant	66.032	<b>\$ 14,574</b>
<b>U.S. Department of Education</b>		
Passed Through Minnesota Department of Health Early Intervention	84.181	<b>\$ 1,023</b>
<b>U.S. Election Assistance Commission</b>		
Passed Through Minnesota Secretary of State Help America Vote Act	90.401	<b>\$ 355,000</b>

**DOUGLAS COUNTY  
ALEXANDRIA, MINNESOTA**

**Schedule 11  
(Continued)**

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Board on Aging and West Central Area Agency on Aging		
Special Programs for the Aging - Title IV and II Discretionary Projects	93.048	\$ 4,253
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations	93.779	22,447
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	10,745
Temporary Assistance for Needy Families (TANF)	93.558	142,607
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	532,867
Foster Care Title IV-E	93.658	42,155
Social Services Block Grant Title XX	93.667	198,684
Chafee Foster Care Independent Living	93.674	15,499
Block Grant - Community Mental Health Services	93.958	8,792
Passed Through Minnesota Department of Health		
Immunization Grants	93.268	900
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	73,168
Temporary Assistance for Needy Families (TANF)	93.558	22,179
Maternal and Child Health Services Block Grant	93.994	38,144
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 1,112,440</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety		
State Domestic Preparedness Equipment Support Program	97.004	\$ 23,642
Homeland Security Grant Program	97.067	30,694
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 54,336</b>
<b>Total Federal Awards</b>		<b>\$ 1,765,341</b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Douglas County. The County's reporting entity is defined in Note 1 to the financial statements. The Douglas County Hospital Operating Enterprise Fund expended \$689,764 in federal awards, and the Housing and Redevelopment Authority of Douglas County component unit expended \$1,047,282 in federal awards not included in this schedule. Those federal awards had separate federal audits in accordance with OMB Circular A-133.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Due to revenue recognition principles of modified accrual, expenditures on this schedule do not equal federal revenues reported in the funds.
3. Pass-through grant numbers were not assigned by the pass-through agencies.
4. Douglas County did not pass any federal awards to subrecipients in 2006.