

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

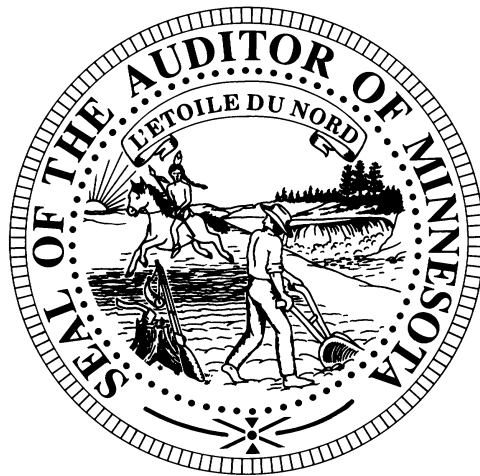
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Year Ended December 31, 2004



**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, 2004

Office	Name	Term Expires
Commissioners		
1st District	Gerald Johnson	January 2005
2nd District	John Mingus	January 2007
3rd District	Bryan Withers*	January 2005
4th District	Paul Anderson	January 2007
5th District	Dan Olson	January 2007
Officers		
Elected		
Attorney	Christopher Karpan	January 2007
Auditor/Treasurer	Thomas Reddick	January 2007
County Recorder	Darlene Chermak	January 2007
Registrar of Titles	Darlene Chermak	January 2007
Sheriff	William G. Ingebrigtsen	January 2007
Appointed		
Assessor	A. Keith Albertsen	December 2008
Coordinator	William B. Schalow	Indefinite
Highway Engineer	David Robley	May 2008
Surveyor	Gary Hopko	Indefinite
Veterans Service	Ray Kallstrom	September 2007
Medical Examiner	Mark Spanbauer, M.D.	Indefinite
Director - Social Services	Michael Woods	Indefinite
Director - Public Health	Sandra Tubbs	Indefinite

*Chair

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PATRICIA ANDERSON
STATE AUDITOR

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, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. 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 Enterprise Fund and the Housing and Redevelopment Authority of Douglas County, discretely presented component units, which represent the Enterprise Fund (97 percent and 100 percent of the assets and revenues, respectively, of the business-type activities) and 18 percent and 42 percent, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Douglas County Hospital and the Housing and Redevelopment Authority of Douglas County, is 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, 2004, 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 listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and supplementary schedules have 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, are 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 August 23, 2005, 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 23, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2004
(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, 2004. 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.

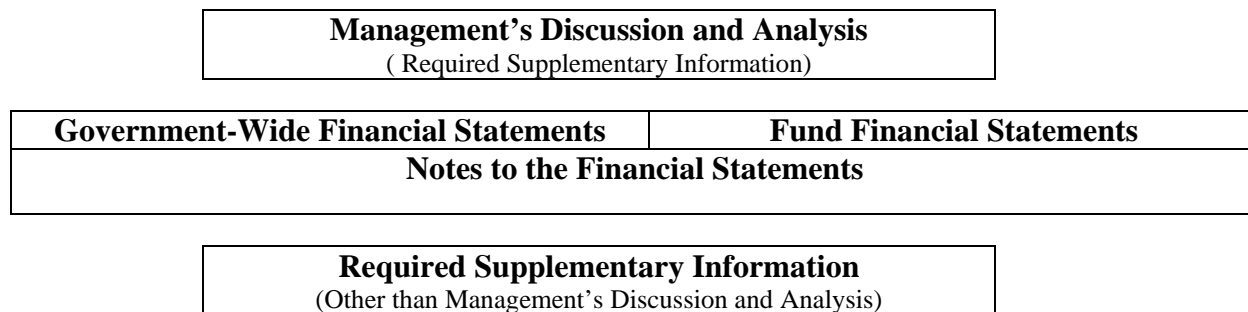
FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$64,951,883, of which \$56,030,754 is invested in capital assets, net of related debt, and \$962,928 is restricted to specific purposes/uses by the County.
- Business-type activities have total net assets of \$39,317,628. Invested in capital assets, net of related debt, represents \$18,851,079 of the total; \$162,339 of the total business-type net assets is restricted for specific uses.
- Douglas County's net assets (governmental activities and business-type activities) total \$104,269,511 for the year ended December 31, 2004. Invested in capital assets, net of related debt, represents \$74,881,833 of the total, \$1,125,267 of the total net assets are restricted for specific uses and \$28,262,411 is unrestricted.
- The net cost of Douglas County's governmental activities for the year ended December 31, 2004, was \$14,751,189. General property tax revenues and other revenue sources totaling \$17,137,711 funded the County's governmental net cost of \$14,751,189.
- Douglas County's governmental funds' fund balances decreased by \$1,894,817. Most of the decrease was due to infrastructure capital expenditures paid from 2003 road reconstruction bonds.

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	
	2004	2003	2004	2003	2004	2003
Assets						
Current and other assets	\$ 16,776,864	\$ 17,544,106	\$ 26,952,433	\$ 24,183,616	\$ 43,729,297	\$ 41,727,722
Capital Assets	<u>63,905,936</u>	<u>61,190,955</u>	<u>22,541,258</u>	<u>22,220,327</u>	<u>86,447,194</u>	<u>83,411,282</u>
Total assets	<u>\$ 80,682,800</u>	<u>\$ 78,735,061</u>	<u>\$ 49,493,691</u>	<u>\$ 46,403,943</u>	<u>\$ 130,176,491</u>	<u>\$ 125,139,004</u>
Liabilities						
Long-term debt outstanding	\$ 13,798,131	\$ 14,519,212	\$ 6,142,531	\$ 4,592,025	\$ 19,940,662	\$ 19,111,237
Other liabilities	<u>1,932,786</u>	<u>1,650,488</u>	<u>4,033,532</u>	<u>4,633,249</u>	<u>5,966,318</u>	<u>6,283,737</u>
Total Liabilities	<u>\$ 15,730,917</u>	<u>\$ 16,169,700</u>	<u>\$ 10,176,063</u>	<u>\$ 9,225,274</u>	<u>\$ 25,906,980</u>	<u>\$ 25,394,974</u>
Net Assets						
Invested in capital assets, net of debt	\$ 56,030,754	\$ 55,022,319	\$ 18,851,079	\$ 19,894,134	\$ 74,881,833	\$ 74,916,453
Restricted	962,928	1,811,659	162,339	181,211	1,125,267	1,992,870
Unrestricted	<u>7,958,201</u>	<u>5,731,383</u>	<u>20,304,210</u>	<u>17,103,324</u>	<u>28,262,411</u>	<u>22,834,707</u>
Total Net Assets	<u>\$ 64,951,883</u>	<u>\$ 62,565,361</u>	<u>\$ 39,317,628</u>	<u>\$ 37,178,669</u>	<u>\$ 104,269,511</u>	<u>\$ 99,744,030</u>

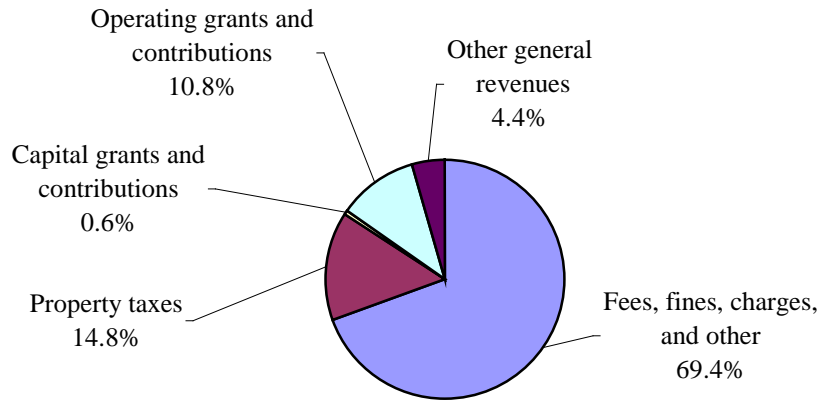
Douglas County's total net assets as of December 31, 2004, total \$104,269,511. The governmental activities' unrestricted net assets totaling \$7,958,201 are available to finance the day-to-day operations of the governmental activities of Douglas County. The remaining unrestricted net assets totaling \$20,304,210 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	
	2004	2003	2004	2003	2004	2003
Revenues						
Program revenues						
Fees, charges, fines, and other	\$ 5,460,162	\$ 5,242,455	\$ 57,293,147	\$ 53,240,400	\$ 62,753,309	\$ 58,482,855
Operating grants and contributions	9,674,232	9,475,660	128,571	-	9,802,803	9,475,660
Capital grants and contributions	478,397	1,021,168	61,567	176,722	539,964	1,197,890
General revenues						
Property taxes	13,369,184	12,048,455	-	-	13,369,184	12,048,455
Other taxes	53,910	72,874	-	-	53,910	72,874
Grants and contributions	3,045,702	3,268,583	-	-	3,045,702	3,268,583
Other general revenues	668,915	558,837	181,455	179,327	850,370	738,164
Total Revenues	\$ 32,750,502	\$ 31,688,032	\$ 57,664,740	\$ 53,596,449	\$ 90,415,242	\$ 85,284,481
Expenses						
General government	\$ 5,536,046	\$ 5,475,553	\$ -	\$ -	\$ 5,536,046	\$ 5,475,553
Public safety	5,353,660	5,470,199	-	-	5,353,660	5,470,199
Highways and streets	6,678,325	1,575,700	-	-	6,678,325	1,575,700
Human services	7,738,680	7,640,461	-	-	7,738,680	7,640,461
Health	2,688,284	2,565,388	-	-	2,688,284	2,565,388
Culture and recreation	1,409,646	1,209,396	-	-	1,409,646	1,209,396
Conservation of natural resources	586,431	992,968	-	-	586,431	992,968
Economic development	32,614	28,614	-	-	32,614	28,614
Interest	340,294	489,525	-	-	340,294	489,525
Hospital	-	-	55,525,781	51,818,301	55,525,781	51,818,301
Total Expenses	\$ 30,363,980	\$ 25,447,804	\$ 55,525,781	\$ 51,818,301	\$ 85,889,761	\$ 77,266,105
Increase in Net Assets	\$ 2,386,522	\$ 6,240,228	\$ 2,138,959	\$ 1,778,148	\$ 4,525,481	\$ 8,018,376
Net Assets - January 1	62,565,361	56,325,133	37,178,669	35,400,521	99,744,030	91,725,654
Net Assets - December 31	\$ 64,951,883	\$ 62,565,361	\$ 39,317,628	\$ 37,178,669	\$ 104,269,511	\$ 99,744,030

Douglas County's total revenues for the year ended December 31, 2004, were \$90,415,242. The total cost of the County's programs and services for the year ended December 31, 2004, was \$85,889,761. The net assets for the County's governmental activities increased by \$2,386,522, mainly due to construction of additional infrastructure.

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



Governmental Activities

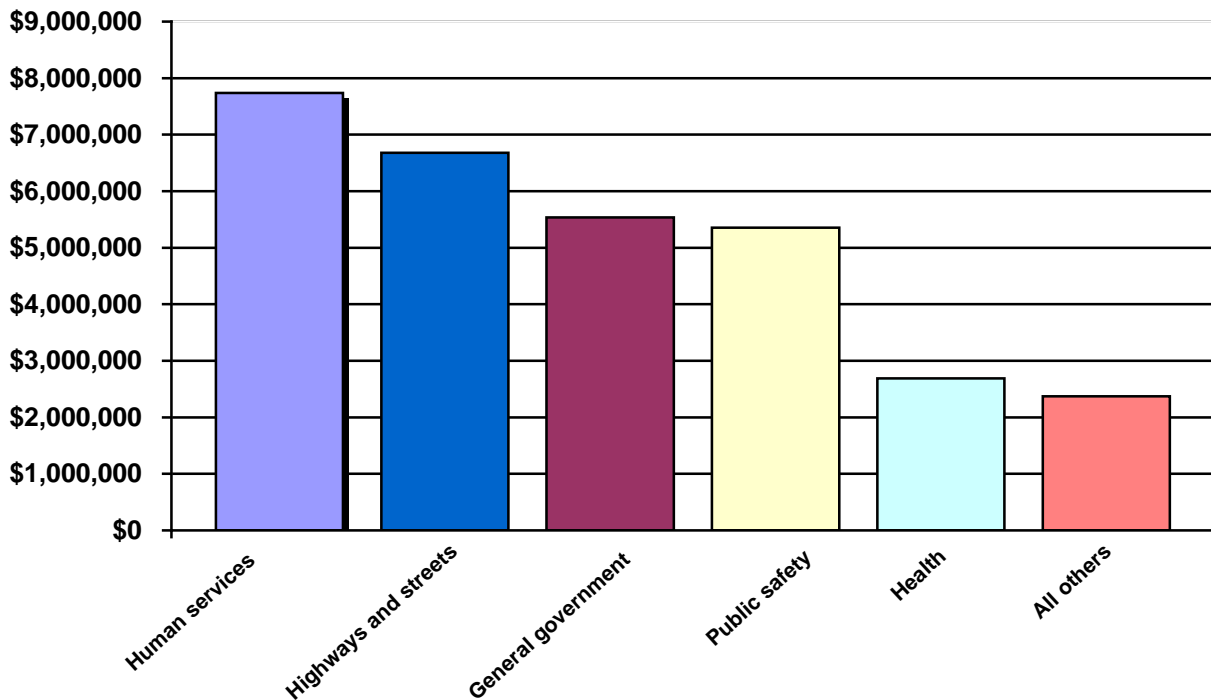
Revenues for Douglas County’s governmental activities for the year ended December 31, 2004, were \$32,750,502. The County’s cost for all governmental activities for the year ended December 31, 2004, was \$30,363,980. As shown in the Statement of Activities, the amount that Douglas County taxpayers ultimately financed for these governmental activities through local property taxation was \$13,369,184 because \$5,460,162 of the cost was paid by those who directly benefited from the programs, and \$10,152,629 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 \$3,768,527 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 significant difference in the net cost of services for highways and streets is primarily due to the issuance of highway road reconstruction bonds in 2003.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2004	2003	2004	2003
Program Expenses				
Human services	\$ 7,738,680	\$ 7,640,461	\$ 3,346,605	\$ 2,805,235
Highways and streets	6,678,325	1,575,700	1,155,949	(3,414,615)
General government	5,536,046	5,475,553	4,053,334	4,060,455
Public safety	5,353,660	5,470,199	4,316,960	3,789,578
Health	2,688,284	2,565,388	264,153	258,276
All others	2,368,985	2,720,503	1,614,188	2,209,592
Total Program Expenses	\$ 30,363,980	\$ 25,447,804	\$ 14,751,189	\$ 9,708,521

Governmental Activities Expenses



Business-Type Activities

Revenues of Douglas County’s business-type activities (see Table 2) for the year ended December 31, 2004, were \$57,664,740. Expenses of the County’s business-type activities (see Table 2) for the year ended December 31, 2004, were \$55,525,781. This resulted in an increase in net assets of \$2,138,959. The primary component of this increase was increased revenues due to expansion of services in key areas of the Douglas County Hospital.

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 \$12,298,476, which is below last year's total of \$14,193,293. Included in this year's total fund balance is a surplus of \$6,597,280 in the County's General Fund. The majority of this amount, \$5,073,058, will be used to cash flow the first few months of 2005 until the current year tax collections begin. The General Fund's fund balance increased by \$772,950, mostly due to a transfer from the Human Services Fund. All other governmental fund balances decreased. The largest decrease was in the Capital Projects Fund, \$2,593,910, due to expenditures for road reconstruction.

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; however, in 2004, the County Board of Commissioners made minor budgetary amendments/revisions. If the County Board of Commissioners had made changes to the budget as originally adopted on December 16, 2003, these budget amendments/revisions would have fallen into one of three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts.

In the County's General Fund, the actual revenues were above the expected revenues by \$765,930, mostly due to a transfer from the Human Services Fund. Total actual expenditures in the County's General Fund exceeded the budgeted expenditures by \$642,155. The Public Safety expenditure category exceeded the budgeted amount due to higher than anticipated personnel costs and unexpected capital expenditures. 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 2004 budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, Douglas County had \$86,447,194 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 \$3,035,912, or 3.6 percent, over last year.

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

	Governmental Activities		Business-Type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Land	\$ 2,378,151	\$ 2,286,200	\$ 56,930	\$ 56,930	\$ 2,435,081	\$ 2,343,130
Construction in progress	725,424	4,783,282	-	-	725,424	4,783,282
Buildings	15,425,490	15,445,137	13,246,804	14,150,241	28,672,294	29,595,378
Land and building improvements	135,097	108,946	464,529	502,870	599,626	611,816
Machinery, furniture, and equipment	2,784,860	2,627,549	8,772,995	7,510,286	11,557,855	10,137,835
Infrastructure	42,456,914	35,939,841	-	-	42,456,914	35,939,841
Totals	\$ 63,905,936	\$ 61,190,955	\$ 22,541,258	\$ 22,220,327	\$ 86,447,194	\$ 83,411,282

This year's major additions include the purchase of MRI units for the Douglas County Hospital, continued infrastructure construction on various highways (both completed and construction in progress), and the completion of the Brandon highway garage.

The County's Capital Projects Fund has \$2,412,342 of available fund balance to be used to finance future capital expenditures. Planned projects for 2005 include road reconstruction 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, 2004, Douglas County had \$14,459,171 in long-term obligations, compared with \$15,585,762 as of December 31, 2003--a decrease of 7.2 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

Bonds Payable	Governmental Activities		Business-Type Activities		Primary Government	
	2004	2003	2004	2003	2004	2003
General Obligation Bonds	\$ 11,515,000	\$ 12,100,000	\$ -	\$ -	\$ 11,515,000	\$ 12,100,000
General Obligation Notes	880,000	1,105,000	-	-	880,000	1,105,000
Loans	53,276	22,634	-	-	53,276	22,634
Tax Exempt Revenue Note	-	-	2,010,895	2,358,128	2,010,895	2,358,128
Totals	\$ 12,448,276	\$ 13,227,634	\$ 2,010,895	\$ 2,358,128	\$ 14,459,171	\$ 15,585,762

New debt resulted from a Sewer Clean Water Partnership with the State of Minnesota Pollution Control Agency in the amount of \$36,300.

In 2005, Douglas County's rating from Moody's Investor Services was raised from an "A2" to 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 \$62,843,582 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.

FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for the business-type activities.

- For the past two years, the State of Minnesota has projected a budget deficit. How the State of Minnesota resolves this deficit could have a significant impact on future Douglas County budgets. Major revenue sources for the County are state-paid aids, credits, and grants. Should the State of Minnesota significantly reduce these revenues or pass on costs to the County, it would have a significant impact on next year's budget.
- 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 unemployment rate for 2003 averaged 3.6 percent. Douglas County's unemployment rate for 2004 averaged 3.7 percent. A minimal increase, however, should the unemployment rate continue to increase, there could be an impact on the level of services requested by Douglas County residents.
- The net property tax levies are planned to increase 8.4 percent from 2004.
- Planning for facility needs and the possibility of a jail expansion project.
- Land development and regulation issues.
- 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, 2004**

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and pooled investments	\$ 10,884,326	\$ 4,175,052	\$ 15,059,378	\$ 795,728
Petty cash and change funds	6,447	470	6,917	300
Departmental cash	4,612	40,000	44,612	-
Investments	1,738,635	1,534,430	3,273,065	5,071,734
Taxes receivable				
Current - net	147,413	-	147,413	-
Prior - net	68,679	-	68,679	-
Special assessments receivable				
Current - net	829	-	829	4,679
Prior - net	1,482	-	1,482	-
Noncurrent - net	99,086	-	99,086	-
Accounts receivable - net	142,131	9,454,344	9,596,475	274,818
Notes receivable - net	140,152	-	140,152	349,095
Accrued interest receivable	45,824	-	45,824	19,027
Contracts receivable	33,432	-	33,432	-
Internal balances	623,266	(623,266)	-	-
Due from other governments	2,721,980	-	2,721,980	37,954
Deferred charges	-	-	-	29,778
Prepaid items	22,235	126,385	148,620	9,375
Inventories	96,335	979,835	1,076,170	-
Restricted assets				
Investments	-	-	-	1,439,165
Accrued interest receivable	-	-	-	3,026
Noncurrent assets				
Funds designated for capital improvements	-	11,059,083	11,059,083	-
Other assets	-	206,100	206,100	-
Capital assets				
Nondepreciable	3,103,575	56,930	3,160,505	349,119
Depreciable - net of accumulated depreciation	60,802,361	22,484,328	83,286,689	15,226,085
Total Assets	\$ 80,682,800	\$ 49,493,691	\$ 130,176,491	\$ 23,609,883

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT 1
(Continued)**

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

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-Type Activities	Total	
Liabilities				
Accounts payable	\$ 558,198	\$ 2,011,843	\$ 2,570,041	\$ 180,616
Salaries payable	564,995	2,020,507	2,585,502	46,985
Accrued payroll taxes	-	-	-	4,656
Contracts payable	404,127	-	404,127	-
Due to other governments	305,332	-	305,332	6,848
Accrued interest payable	68,509	1,182	69,691	53,515
Unearned revenue	31,625	-	31,625	-
Deposits held for others	-	-	-	3,366
Deferred credits	-	-	-	39,274
Long-term liabilities				
Due within one year	1,475,485	939,804	2,415,289	157,042
Due in more than one year	12,322,646	5,202,727	17,525,373	2,696,059
Total Liabilities	\$ 15,730,917	\$ 10,176,063	\$ 25,906,980	\$ 3,188,361
Net Assets				
Invested in capital assets- net of related debt	\$ 56,030,754	\$ 18,851,079	\$ 74,881,833	\$ 13,638,297
Restricted for				
General government	92,122	-	92,122	-
Public safety	105,753	-	105,753	-
Highways and streets	593,029	-	593,029	-
Culture and recreation	159,497	-	159,497	-
Conservation of natural resources	12,291	-	12,291	-
Endowment - expendable	57	-	57	-
Held in trust for other purposes	179	-	179	-
Postclosure	-	-	-	895,722
Housing and redevelopment	-	-	-	645,317
Capital acquisitions	-	162,339	162,339	-
Unrestricted	7,958,201	20,304,210	28,262,411	5,242,186
Total Net Assets	\$ 64,951,883	\$ 39,317,628	\$ 104,269,511	\$ 20,421,522

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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

	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>	<u>Program Revenues Operating Grants and Contributions</u>
Functions/Programs			
Primary Government			
Governmental activities			
General government	\$ 5,536,046	\$ 1,317,333	\$ 165,379
Public safety	5,353,660	635,749	400,951
Highways and streets	6,678,325	1,147,313	3,896,666
Human services	7,738,680	183,179	4,208,896
Health	2,688,284	1,956,549	467,582
Culture and recreation	1,409,646	78,945	262,358
Conservation of natural resources	586,431	141,094	272,400
Economic development	32,614	-	-
Interest	340,294	-	-
Total governmental activities	\$ 30,363,980	\$ 5,460,162	\$ 9,674,232
Business-type activities			
Hospital	55,525,781	57,293,147	128,571
Total primary government	\$ 85,889,761	\$ 62,753,309	\$ 9,802,803
Component Units			
Pope-Douglas Solid Waste	\$ 3,898,546	\$ 3,245,548	\$ 255,675
Housing and Redevelopment Authority	2,460,910	539,164	1,896,475
Total component units	\$ 6,359,456	\$ 3,784,712	\$ 2,152,150

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

Net Assets - Ending

EXHIBIT 2

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets			Discretely Presented Component Units
	Governmental Activities	Primary Government Business-Type Activities	Total	
\$ -	\$ (4,053,334)	\$ -	\$ (4,053,334)	
-	(4,316,960)	-	(4,316,960)	
478,397	(1,155,949)	-	(1,155,949)	
-	(3,346,605)	-	(3,346,605)	
-	(264,153)	-	(264,153)	
-	(1,068,343)	-	(1,068,343)	
-	(172,937)	-	(172,937)	
-	(32,614)	-	(32,614)	
-	(340,294)	-	(340,294)	
\$ 478,397	\$ (14,751,189)	\$ -	\$ (14,751,189)	
61,567	-	1,957,504	1,957,504	
\$ 539,964	\$ (14,751,189)	\$ 1,957,504	\$ (12,793,685)	
\$ -				\$ (397,323)
37,484				12,213
\$ 37,484				\$ (385,110)
	\$ 13,369,184	\$ -	\$ 13,369,184	\$ 175,573
	52,283	-	52,283	-
	1,627	-	1,627	-
	3,045,702	-	3,045,702	3,871
	250,528	181,455	431,983	90,513
	366,807	-	366,807	-
	51,580	-	51,580	-
	\$ 17,137,711	\$ 181,455	\$ 17,319,166	\$ 269,957
	\$ 2,386,522	\$ 2,138,959	\$ 4,525,481	\$ (115,153)
	62,565,361	37,178,669	99,744,030	20,536,675
	\$ 64,951,883	\$ 39,317,628	\$ 104,269,511	\$ 20,421,522

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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

	General	Public Works
<u>Assets</u>		
Cash and pooled investments	\$ 5,547,942	\$ 526,943
Petty cash and change funds	3,872	2,050
Departmental cash	-	-
Investments	-	35,354
Taxes receivable		
Current	67,229	21,815
Prior	30,432	12,527
Special assessments receivable		
Current	-	-
Prior	720	-
Noncurrent	36,300	-
Accounts receivable	58,227	2,227
Notes receivable Prime West	140,152	-
Accrued interest receivable	35,404	247
Contracts receivable	-	-
Due from other funds	431,546	112,881
Due from other governments	333,248	1,428,715
Inventories	-	96,335
Prepaid items	20,942	215
Advances to other funds	879,716	-
	\$ 7,585,730	\$ 2,239,309
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 207,790	\$ 40,559
Salaries payable	269,952	79,821
Contracts payable	-	394,454
Due to other funds	210,070	2,450
Due to other governments	16,959	42,047
Accrued interest payable	-	-
Deferred revenue - unavailable	283,679	1,157,298
Deferred revenue - unearned	-	23,965
Advance from other funds	-	-
	\$ 988,450	\$ 1,740,594

EXHIBIT 3

Human Services	Ditch	Other Governmental Funds	Governmental Funds
\$ 1,983,774	\$ 122,469	\$ 2,703,198	\$ 10,884,326
425	-	100	6,447
-	-	4,612	4,612
-	-	1,703,281	1,738,635
33,863	-	24,506	147,413
17,973	-	7,747	68,679
-	829	-	829
-	762	-	1,482
-	62,786	-	99,086
11,443	-	70,234	142,131
-	-	-	140,152
-	-	10,173	45,824
-	-	33,432	33,432
902	1,367	31,081	577,777
642,310	5,253	312,454	2,721,980
-	-	-	96,335
-	140	938	22,235
-	-	-	879,716
\$ 2,690,690	\$ 193,606	\$ 4,901,756	\$ 17,611,091
\$ 290,596	\$ 9,695	\$ 9,558	\$ 558,198
110,631	-	104,591	564,995
-	9,673	-	404,127
18,043	7,671	446,148	684,382
209,672	-	36,654	305,332
-	12,574	-	12,574
83,270	68,986	278,433	1,871,666
5,415	-	2,245	31,625
-	879,716	-	879,716
\$ 717,627	\$ 988,315	\$ 877,629	\$ 5,312,615

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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

	General	Public Works
<u>Liabilities and Fund Balances</u>		
(Continued)		
Fund Balances		
Reserved for		
Inventories	\$ -	\$ 96,335
Advances to other funds	879,716	-
State-aid highway projects	-	37,332
Missing heirs	179	-
Recorder's equipment	79,596	-
Sheriff's contingency	5,000	-
Enhanced 911	84,728	-
Gun permit funding	8,246	-
Sheriff's forfeited property	2,225	-
Attorney's forfeited property	12,526	-
CLWP environmental trust	6,901	-
Environmental mitigation	5,390	-
Random drug tests	3,592	-
Juvenile work program	1,962	-
Endowments	-	-
Notes receivable	140,152	-
Gates foundation grant	-	-
Library fund drive	-	-
Unreserved		
Designated for future expenditures	2,000	17,597
Designated for cash flows	5,073,058	-
Designated for capital improvements	207,839	-
Designated for extension	8,042	-
Designated for medical insurance	76,128	-
Undesignated	-	347,451
Unreserved, reported in nonmajor		
Special revenue funds	-	-
Debt service funds	-	-
Capital projects funds	-	-
Total Fund Balances	\$ 6,597,280	\$ 498,715
Total Liabilities and Fund Balances	\$ 7,585,730	\$ 2,239,309

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 96,335
-	-	-	879,716
-	-	-	37,332
-	-	-	179
-	-	-	79,596
-	-	-	5,000
-	-	-	84,728
-	-	-	8,246
-	-	-	2,225
-	-	-	12,526
-	-	-	6,901
-	-	-	5,390
-	-	-	3,592
-	-	-	1,962
-	-	57	57
-	-	-	140,152
-	-	1,224	1,224
-	-	158,273	158,273
-	-	-	19,597
-	-	-	5,073,058
-	-	-	207,839
-	-	-	8,042
-	-	-	76,128
1,973,063	(794,709)	-	1,525,805
-	-	951,018	951,018
-	-	501,213	501,213
-	-	2,412,342	2,412,342
<u>\$ 1,973,063</u>	<u>\$ (794,709)</u>	<u>\$ 4,024,127</u>	<u>\$ 12,298,476</u>
<u>\$ 2,690,690</u>	<u>\$ 193,606</u>	<u>\$ 4,901,756</u>	<u>\$ 17,611,091</u>

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)	\$	12,298,476
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.		63,905,936
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,871,666
Internal service funds are used by management to charge the costs of management of fleet maintenance and self-insurance to individual funds. The assets and liabilities that are included in governmental activities in the statement of net assets are:		
Internal services net assets - governmental activities		729,871
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (11,515,000)	
General obligation notes	(880,000)	
Capital leases	(228,604)	
Loans payable	(53,276)	
Compensated absences	(1,121,251)	
Accrued interest payable	(55,935)	
		(13,854,066)
Net assets of governmental activities (Exhibit 1)		\$ 64,951,883

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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

	General	Public Works
Revenues		
Taxes	\$ 6,252,986	\$ 1,976,958
Special assessments	1,852	-
Licenses and permits	359,457	-
Intergovernmental	2,988,977	4,386,824
Charges for services	1,532,159	836,647
Fines and forfeits	77,926	-
Gifts and contributions	11,437	-
Investment earnings	202,734	471
Miscellaneous	539,466	285,289
	\$ 11,966,994	\$ 7,486,189
Expenditures		
Current		
General government	\$ 4,840,671	\$ 291,186
Public safety	5,416,419	-
Highways and streets	-	9,213,540
Human services	-	-
Health	6,235	-
Culture and recreation	500,623	218,358
Conservation of natural resources	335,780	14,637
Economic development	32,614	-
Intergovernmental	-	266,907
Capital outlay	-	-
Debt service		
Principal retirement	108,045	-
Interest	18,827	-
Administrative (fiscal) charges	-	-
	\$ 11,259,214	\$ 10,004,628
Excess of Revenues Over (Under) Expenditures	\$ 707,780	\$ (2,518,439)

EXHIBIT 5

Human Services	Ditch	Other Governmental Funds	Total Governmental Funds
\$ 3,024,007	\$ -	\$ 2,202,398	\$ 13,456,349
-	70,343	-	72,195
11,820	-	112,380	483,657
4,532,598	-	695,793	12,604,192
292	-	1,845,292	4,214,390
-	-	36,438	114,364
-	-	61,109	72,546
-	-	41,964	245,169
168,284	-	74,926	1,067,965
\$ 7,737,001	\$ 70,343	\$ 5,070,300	\$ 32,330,827
\$ -	\$ -	\$ -	\$ 5,131,857
-	-	3,941	5,420,360
-	-	-	9,213,540
7,793,678	-	-	7,793,678
-	-	2,683,043	2,689,278
-	-	628,822	1,347,803
-	166,797	67,750	584,964
-	-	-	32,614
-	-	-	266,907
-	-	423,629	423,629
-	-	810,000	918,045
-	-	433,141	451,968
-	-	16,651	16,651
\$ 7,793,678	\$ 166,797	\$ 5,066,977	\$ 34,291,294
\$ (56,677)	\$ (96,454)	\$ 3,323	\$ (1,960,467)

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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

	General	Public Works
Other Financing Sources (Uses)		
Transfers in	\$ 600,000	\$ 2,162,610
Transfers out	(571,130)	-
Promissory notes issued	36,300	-
Proceeds from sale of capital assets	-	50,000
	\$ 65,170	\$ 2,212,610
Net Change in Fund Balance	\$ 772,950	\$ (305,829)
Fund Balance - January 1	5,824,330	825,194
Increase (decrease) in reserved for inventories	-	(20,650)
Fund Balance - December 31	\$ 6,597,280	\$ 498,715

EXHIBIT 5
(Continued)

Human Services	Ditch	Other Governmental Funds	Total Governmental Funds
\$ 36,501 (600,000) -	\$ - - -	\$ 579,316 (2,207,297) -	\$ 3,378,427 (3,378,427) 36,300 50,000
\$ (563,499)	\$ -	\$ (1,627,981)	\$ 86,300
\$ (620,176)	\$ (96,454)	\$ (1,624,658)	\$ (1,874,167)
2,593,239	(698,255)	5,648,785	14,193,293
-	-	-	(20,650)
\$ 1,973,063	\$ (794,709)	\$ 4,024,127	\$ 12,298,476

**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, 2004**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (1,874,167)

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

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.

Expenditures for general capital assets, infrastructure, and other related capital assets adjustment	\$ 5,962,617	
Current year depreciation	(2,661,741)	3,300,876

In the statement of activities, only the gain or loss on the disposal of capital assets is reported whereas in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the capital assets disposed of. (585,895)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 1,871,666

Revenues reported in the fund statements in the current year, but reported in the government-wide statement of activities in the prior year. (1,484,902)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Promissory notes issue: (36,300)

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	\$ 585,000	
General notes	225,000	
Capital lease	102,387	
Loans	5,658	918,045

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

Change in accrued interest payable	\$ 128,325	
Change in compensated absences	(172,810)	
Change in inventories	(20,650)	(65,135)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net expense of certain activities of the internal service funds is reported with governmental activities.

Governmental activities share of net income before transfers 342,334

Change in net assets of governmental activities (Exhibit 2) \$ 2,386,522

PROPRIETARY FUNDS

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT 7

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

	<u>Enterprise Fund</u> <u>Hospital</u> <u>Operating</u>	<u>Internal</u> <u>Service</u> <u>Fund</u>	<u>Totals</u>
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 2,215,889	\$ 1,959,163	\$ 4,175,052
Petty cash and change funds	470	-	470
Departmental cash	40,000	-	40,000
Investments	1,534,430	-	1,534,430
Accounts receivable - net	9,454,344	-	9,454,344
Due from other funds	-	106,605	106,605
Inventories	979,835	-	979,835
Prepaid items	126,385	-	126,385
Total current assets	\$ 14,351,353	\$ 2,065,768	\$ 16,417,121
Noncurrent assets			
Funds designated for capital improvements	\$ 11,059,083	\$ -	\$ 11,059,083
Other assets	206,100	-	206,100
Capital assets			
Nondepreciable	56,930	-	56,930
Depreciable - net	22,484,328	-	22,484,328
Total noncurrent assets	\$ 33,806,441	\$ -	\$ 33,806,441
Total Assets	\$ 48,157,794	\$ 2,065,768	\$ 50,223,562
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 1,780,995	\$ 230,848	\$ 2,011,843
Salaries payable	2,020,507	-	2,020,507
Accrued interest payable	1,182	-	1,182
Tax-exempt revenue notes payable - current	362,235	-	362,235
Capital leases payable - current	577,569	-	577,569
Total current liabilities	\$ 4,742,488	\$ 230,848	\$ 4,973,336
Noncurrent liabilities			
Compensated absences payable - long-term	\$ 2,425,596	\$ -	\$ 2,425,596
Tax-exempt revenue notes payable - long term	1,648,660	-	1,648,660
Capital leases payable - long-term	1,128,471	-	1,128,471
Total noncurrent liabilities	\$ 5,202,727	\$ -	\$ 5,202,727
Total Liabilities	\$ 9,945,215	\$ 230,848	\$ 10,176,063

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

***EXHIBIT 7
(Continued)***

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

	<u>Enterprise Fund Hospital Operating</u>	<u>Internal Service Fund</u>	<u>Totals</u>
Net Assets			
Invested in capital assets - net of related debt	\$ 18,851,079	\$ -	\$ 18,851,079
Restricted for			
Capital acquisitions	162,339	-	162,339
Unrestricted	<u>19,199,161</u>	<u>1,834,920</u>	<u>21,034,081</u>
 Total Net Assets	 <u>\$ 38,212,579</u>	 <u>\$ 1,834,920</u>	 \$ 40,047,499
 Some amounts reported for business-type activities in the statement of net assets (Exhibit 1) are different because certain internal service fund assets and liabilities are included with governmental activities.			 <u>(729,871)</u>
 Net Assets - Business-Type Activities			 <u>\$ 39,317,628</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Enterprise Fund Hospital Operating</u>	<u>Internal Service Fund</u>	<u>Totals</u>
Operating Revenues			
Patient services	\$ 56,926,501	\$ -	\$ 56,926,501
Premiums	-	6,145,176	6,145,176
Miscellaneous	366,646	-	366,646
Total Operating Revenues	\$ 57,293,147	\$ 6,145,176	\$ 63,438,323
Operating Expenses			
Employee benefits and payroll taxes	\$ 6,313,276	\$ -	\$ 6,313,276
Professional services	2,083,187	-	2,083,187
Contracted services	3,357,774	-	3,357,774
Claims paid	-	4,453,928	4,453,928
Administration and fiscal services	-	847,585	847,585
Supplies	13,343,564	-	13,343,564
Payroll	23,040,699	-	23,040,699
Utilities	814,233	-	814,233
Insurance	196,518	-	196,518
Rent	494,791	-	494,791
Repairs and maintenance	1,317,890	-	1,317,890
Minnesota Care tax and surcharge	1,058,250	-	1,058,250
Miscellaneous	267,469	-	267,469
Depreciation	3,437,236	-	3,437,236
Total Operating Expenses	\$ 55,724,887	\$ 5,301,513	\$ 61,026,400
Operating Income (Loss)	\$ 1,568,260	\$ 843,663	\$ 2,411,923
Nonoperating Revenues (Expenses)			
Interest income	\$ 173,397	\$ 13,417	\$ 186,814
Noncapital grants and contributions	128,571	-	128,571
Interest expense	(223,185)	-	(223,185)
Other expense	(84,397)	-	(84,397)
Total Nonoperating Revenues (Expenses)	\$ (5,614)	\$ 13,417	\$ 7,803

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT 8
(Continued)**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Enterprise Fund Hospital Operating	Internal Service Fund	Totals
Income before contributions	\$ 1,562,646	\$ 857,080	\$ 2,419,726
Capital contributions	61,567	-	61,567
Change in net assets	\$ 1,624,213	\$ 857,080	\$ 2,481,293
Net Assets - January 1	36,588,366	977,840	
Net Assets - December 31	\$ 38,212,579	\$ 1,834,920	

Some amounts reported for business-type activities in the statement of activities (Exhibit 2) are different because a portion of the net revenue (expense) of the internal service fund is attributable and reported with governmental activities.

(342,334)

Change in Net Assets of Business-Type Activities

\$ 2,138,959

All revenues of the Hospital Operating Enterprise Fund are pledged as collateral for the tax-exempt revenue notes.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004
Increase (Decrease) in Cash and Cash Equivalents**

	Hospital Operating Enterprise Fund	Internal Service Fund
Cash Flows From Operating Activities		
Receipts from customers and users	\$ 58,230,180	\$ -
Receipts from internal services provided	-	6,084,908
Payments to suppliers	(23,352,704)	(5,382,302)
Payments to employees	(29,382,696)	-
Other receipts and payments	462,814	-
	\$ 5,957,594	\$ 702,606
Cash Flows From Noncapital Financing Activities		
Intergovernmental receipts	\$ 128,571	\$ -
Cash Flows From Capital and Related Financing Activities		
Capital contributions	\$ 28,355	\$ -
Principal paid on long-term debt	(794,587)	-
Interest paid on long-term debt	(223,388)	-
Purchases of capital assets	(1,649,313)	-
	\$ (2,638,933)	\$ -
Cash Flows from Investing Activities		
Investment earnings received	\$ 173,397	\$ 13,417
Change in investments	(4,040,680)	-
	\$ (3,867,283)	\$ 13,417
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (420,051)	\$ 716,023
Cash and Cash Equivalents at January 1	4,012,201	1,243,140
Cash and Cash Equivalents at December 31	\$ 3,592,150	\$ 1,959,163
Cash and Cash Equivalents - Exhibit 7		
Cash and pooled investments	\$ 2,215,889	\$ 1,959,163
Petty cash and change funds	470	-
Departmental cash	40,000	-
Funds designated for capital improvements	1,335,791	-
	\$ 3,592,150	\$ 1,959,163

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004
Increase (Decrease) in Cash and Cash Equivalents**

	Hospital Operating Enterprise Fund	Internal Service Fund
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	\$ 1,568,260	\$ 843,663
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	\$ 3,437,236	\$ -
Debt forgiven on physician loans	24,440	-
(Increase) decrease in accounts receivable	1,399,971	-
(Increase) decrease in due from other funds	-	(60,268)
(Increase) decrease in inventories	(159,777)	-
(Increase) decrease in prepaid items	14,490	-
Increase (decrease) in accounts payable	141,454	(80,789)
Increase (decrease) in salaries payable	(660,179)	-
Increase (decrease) in other accrued expenses	191,699	-
Total adjustments	\$ 4,389,334	\$ (141,057)
Net cash provided by operating activities	\$ 5,957,594	\$ 702,606

FIDUCIARY FUNDS

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DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2004

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ 809,238
Receivables	
Accounts	<u>11,168</u>
Total Assets	<u>\$ 820,406</u>
<u>Liabilities</u>	
Accounts payable	\$ 9,292
Due to other governments	<u>811,114</u>
Total Liabilities	<u>\$ 820,406</u>

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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, 2004**

	<u>Pope-Douglas Solid Waste</u>	<u>Housing and Redevelopment Authority</u>	<u>Total</u>
Assets			
Current assets			
Cash and pooled investments	\$ 410,067	\$ 385,661	\$ 795,728
Petty cash and change funds	300	-	300
Investments	5,071,734	-	5,071,734
Special assessments			
Current	4,679	-	4,679
Accounts receivable - net	252,076	22,742	274,818
Accrued interest receivable	19,027	-	19,027
Due from other governments	37,954	-	37,954
Loans receivable	-	59,209	59,209
Deferred charges	-	29,778	29,778
Prepaid items	9,375	-	9,375
Total current assets	\$ 5,805,212	\$ 497,390	\$ 6,302,602
Restricted assets			
Investments	\$ 1,103,312	\$ 335,853	\$ 1,439,165
Accrued interest receivable	3,026	-	3,026
Total restricted assets	\$ 1,106,338	\$ 335,853	\$ 1,442,191
Noncurrent assets			
Notes receivable - long-term	\$ -	\$ 289,886	\$ 289,886
Capital assets			
Nondepreciable	179,288	169,831	349,119
Depreciable - net	12,359,967	2,866,118	15,226,085
Total noncurrent assets	\$ 12,539,255	\$ 3,325,835	\$ 15,865,090
Total Assets	\$ 19,450,805	\$ 4,159,078	\$ 23,609,883

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT 11
(Continued)**

**COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2004**

	<u>Pope-Douglas Solid Waste</u>	<u>Housing and Redevelopment Authority</u>	<u>Total</u>
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 125,285	\$ 55,331	\$ 180,616
Salaries payable	46,985	-	46,985
Accrued payroll taxes	-	4,656	4,656
Compensated absences payable - current	59,739	15,303	75,042
Due to other governments	-	6,848	6,848
Accrued interest payable	-	53,515	53,515
Deposits held for others	-	3,366	3,366
Notes - current	-	52,000	52,000
Bonds payable - current	-	30,000	30,000
Deferred credits	-	39,274	39,274
Total current liabilities	<u>\$ 232,009</u>	<u>\$ 260,293</u>	<u>\$ 492,302</u>
Noncurrent liabilities			
Compensated absences payable - long term	\$ 62,487	\$ 3,189	\$ 65,676
Landfill closure costs - long-term	210,616	-	210,616
Notes payable - long-term	-	289,767	289,767
Bonds payable - long-term	-	2,130,000	2,130,000
Total noncurrent liabilities	<u>\$ 273,103</u>	<u>\$ 2,422,956</u>	<u>\$ 2,696,059</u>
Total Liabilities	<u>\$ 505,112</u>	<u>\$ 2,683,249</u>	<u>\$ 3,188,361</u>
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 12,539,255	\$ 1,099,042	\$ 13,638,297
Restricted for			
Postclosure	895,722	-	895,722
Housing and redevelopment	-	645,317	645,317
Unrestricted	5,510,716	(268,530)	5,242,186
Total Net Assets	<u>\$ 18,945,693</u>	<u>\$ 1,475,829</u>	<u>\$ 20,421,522</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Expenses	Fees, Charges, Fines, and Other
Component Units		
Pope-Douglas Solid Waste	\$ 3,898,546	\$ 3,245,548
Housing and Redevelopment Authority	2,460,910	539,164
Total component units	\$ 6,359,456	\$ 3,784,712
General Revenues		
	Property taxes	
	Grants and contributions not restricted to specific programs	
	Investment income	
	Total general revenues	
	Change in Net Assets	
	Net Assets - Beginning, as restated	
	Net Assets - Ending	

EXHIBIT 12

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
Operating Grants and Contributions	Capital Grants and Contributions	Pope-Douglas Solid Waste	Housing and Redevelopment Authority	Total
\$ 255,675	\$ -	\$ (397,323)	\$ -	\$ (397,323)
1,896,475	37,484	-	12,213	12,213
\$ 2,152,150	\$ 37,484	\$ (397,323)	\$ 12,213	\$ (385,110)
		\$ -	\$ 175,573	\$ 175,573
		3,871	-	3,871
		87,355	3,158	90,513
		\$ 91,226	\$ 178,731	\$ 269,957
		\$ (306,097)	\$ 190,944	\$ (115,153)
		19,251,790	1,284,885	20,536,675
		\$ 18,945,693	\$ 1,475,829	\$ 20,421,522

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (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:

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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>
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
Pope-Douglas Solid Waste provides for the management and disposal of solid waste in Pope and Douglas Counties pursuant to Minn. Stat. chs. 115A and 400.	County appoints 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 which are described in Note 7.C. The County also participates in jointly-governed organizations which are 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.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities and business-type activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are 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.

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.

**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 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.
- The Ditch Special Revenue 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 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.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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

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

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.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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, 2004, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2004 were \$205,113.

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

Activity between funds that are 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 on May 15 and the second half payment due October 15.

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

4. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories in governmental funds are 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**

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 is 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**

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**

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 that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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.

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Ditch Special Revenue Fund had a deficit fund balance of \$794,709 as of December 31, 2004.

The Ditch Special Revenue Fund's deficit will be eliminated with future special assessment levies against benefited properties.

B. Expenditures in Excess of Appropriations

For the year ended December 31, 2004, expenditures exceeded appropriations in the following funds:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 10,617,059	\$ 11,259,214	\$ 624,155
Forfeited Tax Sale Fund	18,000	67,750	49,750
Bonds and Interest Debt			
Service Fund	996,617	1,259,792	263,175

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Cash and pooled investments	\$ 15,059,378
Petty cash and change funds	6,917
Departmental cash	44,612
Investments	3,273,065
Funds designated for capital improvements	11,059,083
Component units	
Cash and pooled investments	795,728
Petty cash and change funds	300
Investments	5,071,734
Restricted assets	
Investments	1,439,165
Agency funds	
Cash and pooled investments	<u>809,238</u>
 Total Cash and Investments	 <u>\$ 37,559,220</u>

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$2,382,279. The bank balance deposit amount was \$4,004,768. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 645,259
Collateralized with securities held by the pledging financial institution's agent in the County's name	<u>3,359,509</u>
Total covered deposits	\$ 4,004,768
Uncollateralized	<u>-</u>
Total	<u>\$ 4,004,768</u>

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

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

	Category			Fair Value
	1	2	3	
U.S. government securities	\$ 2,720,500	\$ -	\$ 19,382,266	\$ 22,102,766
Money market savings with broker	314,852	-	645,312	960,164
Negotiable certificates of deposit	620,495	-	684,611	1,305,106
Commercial paper	35,963	-	464,903	500,866
Repurchase agreements	-	-	9,463,454	9,463,454
Total Investments	\$ 3,691,810	\$ -	\$ 30,640,546	\$ 34,332,356
Add				
Petty cash and change funds				7,217
Departmental cash				44,612
Deposits				2,453,521
Total				\$ 36,837,706
Housing and Redevelopment Authority of Douglas County's cash and investments				
				721,514
Total Cash and Investments				\$ 37,559,220

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Capital Assets

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

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 2,286,200	\$ 91,951	\$ -	\$ 2,378,151
Construction in progress	4,783,282	725,424	4,783,282	725,424
 Total capital assets not depreciated	 \$ 7,069,482	 \$ 817,375	 \$ 4,783,282	 \$ 3,103,575
Capital assets depreciated				
Land and building improvements	\$ 189,081	\$ 35,592	\$ -	\$ 224,673
Buildings	20,677,831	502,435	21,685	21,158,581
Machinery, furniture, and equipment	5,977,474	626,094	202,569	6,400,999
Infrastructure	52,019,752	8,764,403	995,446	59,788,709
 Total capital assets depreciated	 \$ 78,864,138	 \$ 9,928,524	 \$ 1,219,700	 \$ 87,572,962
Less: accumulated depreciation for				
Land and building improvements	\$ 80,135	\$ 9,461	\$ 20	\$ 89,576
Buildings	5,232,694	526,239	25,842	5,733,091
Machinery, furniture, and equipment	3,349,925	573,264	307,050	3,616,139
Infrastructure	16,079,911	1,552,777	300,893	17,331,795
 Total accumulated depreciation	 \$ 24,742,665	 \$ 2,661,741	 \$ 633,805	 \$ 26,770,601
 Total capital assets depreciated, net	 \$ 54,121,473	 \$ 7,266,783	 \$ 585,895	 \$ 60,802,361
 Governmental Activities Capital Assets, Net	 \$ 61,190,955	 \$ 8,084,158	 \$ 5,369,177	 \$ 63,905,936

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 56,930	\$ -	\$ -	\$ 56,930
Capital assets depreciated				
Land and building improvements	\$ 1,200,818	\$ 21,522	\$ -	\$ 1,222,340
Buildings	27,251,482	201,510	-	27,452,992
Machinery, furniture, and equipment	18,634,365	3,591,770	311,963	21,914,172
Total capital assets depreciated	\$ 47,086,665	\$ 3,814,802	\$ 311,963	\$ 50,589,504
Less: accumulated depreciation for				
Land and building improvements	\$ 697,948	\$ 59,863	\$ -	\$ 757,811
Buildings	13,101,241	1,104,947	-	14,206,188
Machinery, furniture, and equipment	11,124,079	2,267,250	250,152	13,141,177
Total accumulated depreciation	\$ 24,923,268	\$ 3,432,060	\$ 250,152	\$ 28,105,176
Total capital assets depreciated, net	\$ 22,163,397	\$ 382,742	\$ 61,811	\$ 22,484,328
Business-Type Activities Capital Assets, Net	\$ 22,220,327	\$ 382,742	\$ 61,811	\$ 22,541,258

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	452,890
Public safety		219,739
Highways and streets, including depreciation of infrastructure assets		1,862,776
Human services		11,669
Health		9,661
Culture and recreation		104,645
Conservation of natural resources		<u>361</u>
Total Depreciation Expense - Governmental Activities	\$	<u>2,661,741</u>
Business-Type Activities		
Hospital operation	\$	<u>3,437,236</u>

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Public Works	\$ 1,083
	Human Services	17,605
	Other governmental	<u>412,858</u>
Total Due to General Fund		<u>\$ 431,546</u>
Public Works	General	\$ 91,753
	Human Services	438
	Ditch	7,671
	Other governmental	<u>13,019</u>
Total Due to Public Works Fund		<u>\$ 112,881</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Human Services	General	\$ 735
	Other governmental	167
Total due to Human Services Fund		<u>\$ 902</u>
Ditch	Public Works	<u>\$ 1,367</u>
Other governmental	General	\$ 10,977
	Other governmental	20,104
Total due to other governmental funds		<u>\$ 31,081</u>
Internal service fund	General	<u>\$ 106,605</u>
Total Due To/From Other Funds		<u>\$ 684,382</u>

2. Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Ditch	<u>\$ 879,716</u>

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

Transfers to General Fund from Human Services Fund	<u>\$ 600,000</u>	Provide funding
Transfers to Public Works Fund from Capital Projects Fund	<u>\$ 2,162,610</u>	Provide funding for capital outlay

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

3. Interfund Transfers (Continued)

Transfers to Human Services Fund from Capital Projects Fund	\$	36,501	Provide funding for capital outlay
Transfers to nonmajor governmental funds from			
General Fund	\$	571,130	Provide funding
Capital Projects Fund		8,186	Provide funding
 Total transfers to nonmajor governmental funds	 \$	 579,316	
 Total Interfund Transfers	 \$	 3,378,427	

C. Liabilities

1. Construction Commitments

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

	Spent-to-Date	Remaining Commitment
Governmental Activities Roads and Bridges	\$ 721,228	\$ 319,353

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.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Vacation and Sick Leave

Governmental Activities (Continued)

Unused accumulated vacation and vested sick leave are paid to employees upon termination. Unvested sick leave pay, approximately \$1,871,898 at December 31, 2004, 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, 2004, the Hospital had an estimated current sick leave benefit payable of \$134,104 and a long-term benefit payable of \$2,425,596. The statements of revenues, expenses, and changes in net assets include expenses of \$91,699 related to this benefit for the year ended December 31, 2004.

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 his/her and dependent insurance coverage.

The County's contribution from the General Fund for the year ended December 31, 2004, for nine participants was \$42,831.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

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, 2004, was \$279,561.

Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of certain equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. These capital leases consist of the following at December 31, 2004:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original Issue</u>	<u>Balance</u>
Governmental Activities					
1996 controls system	2006	Semi-annual	\$ 55,827	\$ 840,646	\$ 208,163
2002 Sheriff's dictaphone	2006	Annual	6,814	34,069	<u>20,441</u>
Total Governmental Activities Capital Leases					<u>\$ 228,604</u>
Business-Type Activities					
MRI equipment	2007	Monthly	57,765	2,153,394	<u>\$ 1,706,040</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Leases

Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2004, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2005	\$ 118,469	\$ 693,180
2006	118,469	693,180
2007	6,814	519,885
Total minimum lease payments	\$ 243,752	\$ 1,906,245
Less: amount representing interest	15,148	200,205
Present Value of Minimum Lease Payments	<u>\$ 228,604</u>	<u>\$ 1,706,040</u>

5. Long-Term Debt

Governmental Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
General Obligation Bonds 1998A G.O. Capital Improvement Bonds	2011	\$85,000 - \$120,000	3.90 - 4.65	\$ 1,195,000	\$ 725,000
1998B G.O. Capital Improvement Refunding Bonds	2011	\$115,000 - \$165,000	4.10 - 4.65	1,470,000	1,015,000
2002A G.O. Capital Improvement Bonds	2021	\$45,000 - \$95,000	3.00 - 5.00	1,250,000	1,160,000
2002C G.O. Solid Waste Disposal Bonds	2021	\$180,000 - \$225,000	3.00 - 5.00	3,075,000	2,680,000

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Long-Term Debt

Governmental Activities (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
2003A G.O. Road Construction Bonds	2014	\$340,000 - \$510,000	1.75 - 3.75	4,315,000	4,315,000
2003C G.O. Refunding Bonds	2011	\$150,000 - \$280,000	1.15 - 3.40	1,845,000	1,620,000
Total General Obligation Bonds				<u>\$ 13,150,000</u>	<u>\$ 11,515,000</u>
General Obligation Notes					
2002B G.O. Capital Notes	2003	\$60,000	1.50 - 3.00	\$ 300,000	\$ 120,000
2003B G.O. Capital Notes	2008	\$165,000 - \$245,000	1.05 - 2.40	925,000	760,000
Total General Obligation Notes				<u>\$ 1,225,000</u>	<u>\$ 880,000</u>

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.

Loans Payable	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
Energy Conservation Loan	2007	\$5,658	5.50	\$ 56,263	\$ 16,976
Sewer Clean Water Loan	2017	\$2,012	2.00	36,300	36,300
Total Loans Payable				<u>\$ 92,563</u>	<u>\$ 53,276</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Long-Term Debt (Continued)

Business-Type Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
2002 Tax Exempt Revenue Note	2010	\$15,000 - \$105,000	4.23	\$ 2,636,500	\$ 2,010,895

6. Debt Service Requirements

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

Governmental Activities

Year Ending December 31	General Obligation Bonds		Capital Notes	
	Principal	Interest	Principal	Interest
2005	\$ 970,000	\$ 402,790	\$ 230,000	\$ 17,960
2006	1,035,000	377,983	230,000	14,070
2007	1,070,000	349,990	175,000	9,380
2008	1,105,000	318,968	245,000	5,880
2009	1,140,000	283,982	-	-
2010 - 2014	4,265,000	863,355	-	-
2015 - 2019	1,310,000	343,035	-	-
2020 - 2021	620,000	46,475	-	-
Total	<u>\$ 11,515,000</u>	<u>\$ 2,986,578</u>	<u>\$ 880,000</u>	<u>\$ 47,290</u>

Year Ending December 31	Loans Payable	
	Principal	Interest
2005	\$ 5,658	\$ 934
2006	5,658	623
2007	7,307	674
2008	3,347	676
2009	3,414	609
2010 - 2014	18,128	1,988
2015 - 2017	9,764	295
Total	<u>\$ 53,276</u>	<u>\$ 5,799</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Debt Service Requirements (Continued)

Business-Type Activities

<u>Year Ending December 31</u>	<u>General Obligation</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 362,235	\$ 78,090
2006	377,858	62,467
2007	394,155	46,170
2008	411,155	29,170
2009	428,888	11,437
2010	36,604	129
Total	<u>\$ 2,010,895</u>	<u>\$ 227,463</u>

7. Changes in Long-Term Liabilities

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

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-term liabilities					
Bonds payable					
G.O. bonds	\$ 12,100,000	\$ -	\$ 585,000	\$ 11,515,000	\$ 970,000
G.O. capital notes	1,105,000	-	225,000	880,000	230,000
Total G.O. bonds and notes	\$ 13,205,000	\$ -	\$ 810,000	\$ 12,395,000	\$ 1,200,000
Capital leases	330,991	-	102,387	228,604	107,951
Loans payable	22,634	36,300	5,658	53,276	5,658
Compensated absences	960,587	1,016,970	856,306	1,121,251	161,876
Governmental Activity Long-Term Liabilities	<u>\$ 14,519,212</u>	<u>\$ 1,053,270</u>	<u>\$ 1,774,351</u>	<u>\$ 13,798,131</u>	<u>\$ 1,475,485</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue note	\$ 2,358,128	\$ -	\$ 347,233	\$ 2,010,895	\$ 362,235
MRI capital lease	-	2,153,394	447,354	1,706,040	577,569
Business-Type Activity Long-Term Liabilities	<u>\$ 2,358,128</u>	<u>\$ 2,153,394</u>	<u>\$ 794,587</u>	<u>\$ 3,716,935</u>	<u>\$ 939,804</u>

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 that 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.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

For all Public Employees Retirement Fund members 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 web at mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

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

The County's contributions for the years ending December 31, 2004, 2003, and 2002, 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
2004	\$ 658,863	\$ 116,606	\$ 100,347
2003	622,108	110,209	90,280
2002	579,447	102,175	79,806

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

4. Pension Plans (Continued)

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.

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, 2004 and 2003, were \$7,057 and \$4,485, respectively, equal to the contractually required contributions for each year as set by state statute. This was the second year the County made contributions.

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 the MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. The MCIT participates in the Workers' Compensation Reinsurance Association with

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

5. Risk Management (Continued)

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

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

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 \$75,000 stop-loss per contract claim per year (\$5,513,766 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	
	2004	2003
Unpaid claims, beginning of fiscal year	\$ 311,637	\$ 547,023
Incurred claims (including IBNRs)	4,453,928	4,225,911
Claims payments	(4,534,717)	(4,461,297)
Unpaid Claims, End of Fiscal Year	\$ 230,848	\$ 311,637

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

5. Risk Management (Continued)

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.

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, 2004.

Patient service revenue	\$ 118,036,639
Allowances for contractual adjustments	<u>(61,110,138)</u>
Net Patient Service Revenue	<u>\$ 56,926,501</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.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

A. Uncompensated Services to Indigent Patients (Continued)

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, 2004.

Charity discounts for patient care	\$ 278,452
Cost in excess of Medicare public program payments	1,122,293
MinnesotaCare tax	<u>604,915</u>
Total	<u>\$ 2,005,660</u>

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 2004, the County paid \$4,455 to the West Central Area Agency on Aging as its share of the 2004 assessment.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

West Central Area Agency on Aging (Continued)

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

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.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Rainbow Rider Transit Board (Continued)

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.

At December 31, 2004, Rainbow Rider had \$80,000 of debt in promissory notes, including \$20,000 owed to Douglas County. In February 2005, the Douglas County Board of Commissioners approved forgiveness of the \$20,000 note. The date of this forgiveness was retroactive to December 31, 2004.

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 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 2004.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Minnesota River Basin

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

In the event of termination of the agreement, all property, real and personal, held by the Joint Powers Board shall be distributed by resolution of the policy committee to best accomplish the continuing purpose of the project. Control is vested in an executive board of five officers elected from the membership of the Joint Powers Board, consisting of one representative and alternate from each County Board of Commissioners included in this agreement.

On April 20, 2004, the Douglas County Board of Commissioners passed a motion to withdraw membership from the Minnesota River Basin Joint Powers Board.

Complete financial information can be obtained from:

Minnesota River Basin Joint Powers Board
125 Charles Avenue
St. Paul, Minnesota 55103-2108

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.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Prime West Central County-Based Purchasing Initiative (Continued)

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.

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 2004.

Complete financial information can be obtained from:

Prime West Health Systems
Douglas County Courthouse
305 Eighth Avenue West
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 2004, Douglas County did not contribute any money to the Joint Powers Board.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Pomme de Terre River Association (Continued)

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

D. Jointly-Governed Organizations

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

Western Area City/County Co-op

Douglas County and 24 other cities and counties created the Western Area City/County Co-op (WACCO). Each member of WACCO is authorized to appoint one member to the Board of Directors. The Western Area City/County Co-op is a separate entity; and in 2004, Douglas County contributed \$5,000 to WACCO.

On December 28, 2004, the Douglas County Board of Commissioners passed a motion to withdraw membership in WACCO.

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 comprised of 14 members, with one member appointed by each member city and county.

E. Subsequent Events

On June 6, 2005, the County issued \$2,680,000 of road reconstruction bonds to finance construction and maintenance of County roads. The interest rate on the bonds range from 2.75 - 3.85 percent, and the maturity date is February 1, 2016.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

E. Subsequent Events (Continued)

On June 6, 2005, the County issued \$770,000 of ditch bonds to finance the negative fund balance in various County ditch systems. The interest rate on the bonds ranges from 2.75 - 3.85 percent, and the maturity date is February 1, 2016.

8. Pope-Douglas Solid Waste

A. Summary of Significant Accounting Policies

The Pope-Douglas Solid Waste Board's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Board has the option to apply FASB pronouncements issued after that date, the Board has chosen not to do so. The more significant accounting policies established in GAAP and used by the Board are discussed below.

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.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste

A. Summary of Significant Accounting Policies

1. Financial Reporting Entity (Continued)

The Board is governed by a five-member Board of Directors, with two members appointed from Pope County and three from Douglas County. Receipts and disbursements are recorded in the Solid Waste Agency Fund. 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, then unrestricted as they are needed.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste

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 includes 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, 2004, based on market prices. Interest earned on such fund investments is credited to the Solid Waste Fund. (See Note 1.D.2.)

Receivables

All receivables are shown net of an allowance for uncollectibles.

Special assessments receivable consist of delinquent special assessments payable in the years 1999 through 2004 and are offset by an estimated uncollectible amount.

Prepaid Items

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste

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, 2004.

Restricted for closure/postclosure	\$	1,103,312
Accrued interest on restricted investments		3,026
Total	\$	1,106,338

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 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 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 is 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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste

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.

5. Reclassifications

Some account balances presented in the notes were reclassified as of and for the year ended December 31, 2003, as previously reported. Those reclassifications, which did not require a restatement of the net assets, were required for comparability to the financial statements as of and for the year ended December 31, 2004, and must be considered when comparing the financial statements of this report with those of prior reports.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste

A. Summary of Significant Accounting Policies (Continued)

6. Prior Period Adjustment

In the 2003 financial statements, the Board overstated net assets in the amount of \$385,426 by capitalizing maintenance costs that should have been expensed. The net asset account has been restated to show this correction.

Net Assets - January 1	\$	19,637,216
Prior period adjustment		<u>(385,426)</u>
Net Assets - January 1, as restated	\$	<u>19,251,790</u>

B. Detailed Notes

1. Assets

Receivables

Receivables as of December 31, 2004, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Special assessments	\$ 4,679	\$ -
Due from other governments	37,954	-
Accounts	252,076	-
Interest - unrestricted	19,027	-
Interest - restricted	<u>3,026</u>	<u>-</u>
Total	<u>\$ 316,762</u>	<u>\$ -</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste

B. Detailed Notes

1. Assets (Continued)

Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 179,288	\$ -	\$ -	\$ 179,288
Construction in progress	-	623,838	623,838	-
Total capital assets not depreciated	<u>\$ 179,288</u>	<u>\$ 623,838</u>	<u>\$ 623,838</u>	<u>\$ 179,288</u>
Capital assets depreciated				
Land improvements	\$ 2,753,774	\$ 623,838	\$ -	\$ 3,377,612
Buildings	6,065,561	-	-	6,065,561
Machinery, furniture, and equipment	8,658,797	5,112	-	8,663,909
Total capital assets depreciated	<u>\$ 17,478,132</u>	<u>\$ 628,950</u>	<u>\$ -</u>	<u>\$ 18,107,082</u>
Less: accumulated depreciation for				
Land improvements	\$ 2,056,008	\$ 18,422	\$ -	\$ 2,074,430
Buildings	1,392,720	196,802	-	1,589,522
Machinery, furniture, and equipment	1,481,293	601,870	-	2,083,163
Total accumulated depreciation	<u>\$ 4,930,021</u>	<u>\$ 817,094</u>	<u>\$ -</u>	<u>\$ 5,747,115</u>
Total capital assets depreciated, net	<u>\$ 12,548,111</u>	<u>\$ (188,144)</u>	<u>\$ -</u>	<u>\$ 12,359,967</u>
Capital Assets, Net	<u>\$ 12,727,399</u>	<u>\$ 435,694</u>	<u>\$ 623,838</u>	<u>\$ 12,539,255</u>

2. Liabilities

Payables

Payables at December 31, 2004, were as follows:

	Total Payables
Accounts	\$ 125,285
Salaries	46,985
Total Payables	<u>\$ 172,270</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste

B. Detailed Notes

2. Liabilities (Continued)

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 \$139,399 in 2004. The lease is renewable for a one-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, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Estimated liability for landfill closure/ postclosure	\$ 202,590	\$ 8,026	\$ -	\$ 210,616	\$ -
Compensated absences	97,718	111,486	86,978	122,226	59,739
Long-Term Liabilities	<u>\$ 300,308</u>	<u>\$ 119,512</u>	<u>\$ 86,978</u>	<u>\$ 332,842</u>	<u>\$ 59,739</u>

C. Employee Retirement Systems and Pension Plans

1. Defined Benefit Plans

Plan Description

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 (PERA). The PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste

C. Employee Retirement Systems and Pension Plans

1. Defined Benefit Plans

Plan Description (Continued)

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, 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.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste

C. Employee Retirement Systems and Pension Plans

1. Defined Benefit Plans

Plan Description (Continued)

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

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 Board makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. The Board is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53

The Board's contributions for the years ending December 31, 2004, 2003, and 2002, were \$60,760, \$54,317, and \$48,432, 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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste

D. Landfill Closure and Postclosure Care Costs (Continued)

as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$210,616 landfill closure and postclosure care liability at December 31, 2004, represents the cumulative amount reported to date based on the use of 4.6 percent of the estimated capacity of the landfill. The Board will recognize the remaining estimated cost of closure and postclosure care of \$901,977 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2004. The Board expects to close the landfill in 2133. 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, 2004, investments of \$1,103,312 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.

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 the MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. The MCIT participates in the Workers' Compensation Reinsurance

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste

E. Risk Management (Continued)

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

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

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, 2004.

Designated for landfill construction	\$ 3,463,934
Designated for equipment replacement	<u>1,117,396</u>
Total	<u>\$ 4,581,330</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste

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

3. Operating Budgets

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	\$ 1,869,985	\$ 2,279,445	\$ 409,460
Operating Expenses	2,990,985	3,898,546	(907,561)
Operating Income (Loss)	\$ (1,121,000)	\$ (1,619,101)	\$ (498,101)
Nonoperating Revenues (Expenses)	1,121,000	1,313,004	192,004
Net Income (Loss)	\$ -	\$ (306,097)	\$ (306,097)

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 Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
2002 Pope County G.O. Solid Waste Bonds	2011	\$95,000 - \$115,000	3.3531	\$ 1,030,000	\$ 735,000
2002C Douglas County G.O. Solid Waste Disposal Bonds	2021	\$110,000 - \$225,000	4.5377	3,075,000	2,680,000

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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

Effective October 1, 2003, the HRA adopted GASB Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. It was subsequently amended by GASB Statement 37, and modified by GASB Statement No. 38, *Certain Financial Statement Disclosures*. Statement 34, as amended and modified, referred to as the new reporting model, retained much of the old reporting and disclosure requirements of the prior reporting model with certain modifications and newly added information.

The statement of net assets and the statement of activities present financial information about the HRA's overall activities, which are all classified as business-type activities. The HRA has no governmental or fiduciary funds.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

A. Summary of Significant Accounting Policies

2. Financial Statements (Continued)

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 that are specifically associated with and are 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 that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

A. Summary of Significant Accounting Policies

3. Measurement Focus and Basis of Accounting (Continued)

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.

6. Property and Equipment

Property and equipment is stated at cost. The cost of maintenance and repairs that do not add value to assets or materially extend asset lives is not capitalized. The capitalization policy of the HRA is to capitalize fixed 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.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

A. Summary of Significant Accounting Policies (Continued)

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, Including Restricted Funds

The HRA's cash and investments, including escrow funds during the year, consisted of the following:

- Deposits at various financial institutions that are covered by Federal Deposit Insurance Corporation (FDIC) or similar coverage.
- Internally held petty cash funds and other cash on hand.

The HRA's cash and investments are categorized below to give an indication of the level of risk assumed by the entity at year-end.

- | | |
|-------------|---|
| Category 1: | Includes cash and investments that are insured, registered, or for which the HRA or its agent in the HRA's name holds collateral securities. This includes FDIC or equivalent insurance coverage. |
| Category 2: | Includes uninsured and unregistered cash and investments for which the dealer's trust department or agents in the HRA's name hold collateral securities. |
| Category 3: | Includes all other uninsured and uncollateralized cash and investments. |

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

B. Cash and Investments, Including Restricted Funds (Continued)

For all cash and investments shown below, the market value at the balance sheet date is substantially the same as the carrying value. The difference between the bank balance and carrying value is due only to outstanding checks and/or deposits in transit. At various times during the year, the HRA's deposits were higher than the December 31, 2004 balances detailed below.

	Depository Balances by Category			Total Bank Balance	Carrying Amount
	1	2	3		
Cash and Investments					
Bank deposits	\$ 100,392	\$ -	\$ 303,178	\$ 403,570	\$ 385,661
Restricted funds	320,752	-	15,152	335,904	335,853
Total at December 31, 2004	<u>\$ 421,144</u>	<u>\$ -</u>	<u>\$ 318,330</u>	<u>\$ 739,474</u>	<u>\$ 721,514</u>

C. Property and Equipment

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

	Balances January 1, 2004	Additions	Disposals	Balances December 31, 2004
PHA Owned				
Land and improvements	\$ 260,510	\$ 3,036	\$ -	\$ 263,546
Buildings and improvements	1,627,989	39,543	-	1,667,532
Furniture and equipment	32,408	5,208	-	37,616
Construction in progress	9,493	-	9,493	-
Subtotal	<u>\$ 1,930,400</u>	<u>\$ 47,787</u>	<u>\$ 9,493</u>	<u>\$ 1,968,694</u>
Less: accumulated depreciation	<u>887,877</u>	<u>60,885</u>	<u>-</u>	<u>948,762</u>
Total PHA Owned	<u>\$ 1,042,523</u>	<u>\$ (13,098)</u>	<u>\$ 9,493</u>	<u>\$ 1,019,932</u>
Housing Choice Vouchers				
Leasehold improvements	\$ 4,177	\$ -	\$ -	\$ 4,177
Office equipment	10,634	-	-	10,634
Subtotal	<u>\$ 14,811</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,811</u>
Less: accumulated depreciation	<u>12,953</u>	<u>1,582</u>	<u>-</u>	<u>14,535</u>
Total Housing Choice Vouchers	<u>\$ 1,858</u>	<u>\$ (1,582)</u>	<u>\$ -</u>	<u>\$ 276</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

C. Property and Equipment (Continued)

	Balances January 1, 2004	Additions	Disposals	Balances December 31, 2004
RECD				
Land and improvements	\$ 9,638	\$ 6,541	\$ -	\$ 16,179
Buildings and improvements	127,983	-	-	127,983
Furniture and equipment	22,995	-	-	22,995
Construction in progress	6,541	-	6,541	-
Subtotal	\$ 167,157	\$ 6,541	\$ 6,541	\$ 167,157
Less: accumulated depreciation	29,455	7,722	-	37,177
Total RECD	\$ 137,702	\$ (1,181)	\$ 6,541	\$ 129,980
Administrative Fund				
Furniture and equipment	\$ 65,699	\$ 5,323	\$ -	\$ 71,022
Less: accumulated depreciation	60,837	2,144	-	62,981
Total Administrative Fund	\$ 4,862	\$ 3,179	\$ -	\$ 8,041
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	56,093	28,892	-	84,985
Total Cardinal Estates	\$ 1,192,416	\$ (28,892)	\$ -	\$ 1,163,524
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	17,550	20,228	-	37,778
Total Garfield Creamery Project	\$ 734,424	\$ (20,228)	\$ -	\$ 714,196
Totals	\$ 3,113,785	\$ (61,802)	\$ 16,034	\$ 3,035,949

**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, 2004, 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, 2004.

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, 2004, the HRA has drawn down \$300 of its available line, leaving \$24,700 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 2003 subsidy totaled \$4,163 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>
2005	\$ 3,063	\$ 5,542	\$ 8,605
2006	3,318	5,288	8,606
2007	3,593	5,013	8,606
2008	3,891	4,715	8,606
2009	4,214	4,392	8,606
2010 - 2014	26,934	16,094	43,028
2015 - 2018	25,651	3,749	29,400
Totals	<u>\$ 70,664</u>	<u>\$ 44,793</u>	<u>\$ 115,457</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 homeowners 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>
2005	\$ 44,800	\$ -	\$ 44,800
2006	44,800	-	44,800
2007	44,800	-	44,800
2008	44,800	-	44,800
2009	44,800	-	44,800
Totals	<u>\$ 224,000</u>	<u>\$ -</u>	<u>\$ 224,000</u>

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:

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

E. Long-Term Obligations

State of Minnesota Department of Trade and Economic Development Loan (Continued)

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 10,000	\$ 76,738	\$ 86,738
2006	10,000	76,312	86,312
2007	15,000	75,781	90,781
2008	15,000	75,144	90,144
2009	20,000	74,400	94,400
2010 - 2014	120,000	357,439	477,439
2015 - 2019	190,000	319,388	509,388
2020 - 2024	300,000	259,189	559,189
2025 - 2029	450,000	163,360	613,360
2030 - 2032	360,000	30,800	390,800
Totals	<u>\$ 1,490,000</u>	<u>\$ 1,508,551</u>	<u>\$ 2,998,551</u>

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>
2005	\$ 2,012	\$ 1,018	\$ 3,030
2006	2,012	873	2,885
2007	2,012	727	2,739
2008	2,012	582	2,594
2009	2,012	436	2,448
2010 - 2011	4,024	436	4,460
Totals	<u>\$ 14,084</u>	<u>\$ 4,072</u>	<u>\$ 18,156</u>

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, 2004, was \$32,719. The HRA issued bonds in 2002 and used the proceeds to rehabilitate the building into apartments for rental purposes. This project is

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

E. Long-Term Obligations

State of Minnesota Department of Trade and Economic Development Loan (Continued)

accounted for separately by the HRA and is included in this report under the caption of “Garfield Creamery Apartment Project.” 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>
2005	\$ 1,825	\$ 2,519	\$ 4,344
2006	1,974	2,370	4,344
2007	2,136	2,208	4,344
2008	2,305	2,039	4,344
2009	2,499	1,845	4,344
2010 - 2014	15,922	5,798	21,720
2015 - 2016	6,058	382	6,440
Totals	<u>\$ 32,719</u>	<u>\$ 17,161</u>	<u>\$ 49,880</u>

As mentioned on the previous page, 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 project was not completed as of December 31, 2004. Construction costs are being accumulated in a “construction in progress” account on the HRA’s books. 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>
2005	\$ 20,000	\$ 29,556	\$ 49,556
2006	20,000	28,931	48,931
2007	25,000	28,169	53,169
2008	25,000	27,294	52,294
2009	25,000	26,356	51,356
2010 - 2014	155,000	113,928	268,928
2015 - 2019	200,000	74,890	274,890
2020 - 2023	200,000	20,750	220,750
Totals	<u>\$ 670,000</u>	<u>\$ 349,874</u>	<u>\$ 1,019,874</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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/her annuity. For 2004, employee elective deferrals were available to a maximum of \$13,000 annually (\$16,000 for those over age 50). The payroll for employees covered by the plan for the year ended December 31, 2004, was \$213,628, equal to the HRA's total payroll for the year. HRA contributions to the plan for the three years ended December 31, 2004, 2003, and 2002, equaled \$14,165, \$15,399, and \$20,303, 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.

REQUIRED SUPPLEMENTARY INFORMATION

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 6,845,867	\$ 6,845,867	\$ 6,252,986	\$ (592,881)
Special assessments	-	-	1,852	1,852
Licenses and permits	354,100	354,100	359,457	5,357
Intergovernmental	1,965,040	1,965,040	2,988,977	1,023,937
Charges for services	1,304,185	1,304,185	1,532,159	227,974
Fines and forfeits	72,500	72,500	77,926	5,426
Gifts and contributions	1,500	1,500	11,437	9,937
Investment earnings	200,000	200,000	202,734	2,734
Miscellaneous	457,872	457,872	539,466	81,594
Total Revenues	\$ 11,201,064	\$ 11,201,064	\$ 11,966,994	\$ 765,930
Expenditures				
Current				
General government				
Commissioners	\$ 241,946	\$ 241,946	\$ 210,228	\$ 31,718
Courts	33,500	33,500	43,474	(9,974)
Law library	34,000	34,000	44,559	(10,559)
County auditor-treasurer	409,820	409,820	376,990	32,830
License bureau	302,762	302,762	306,437	(3,675)
County assessor	498,400	498,400	487,547	10,853
Elections	54,000	54,000	67,113	(13,113)
Accounting and auditing	40,000	40,000	61,341	(21,341)
Information systems	556,343	556,343	556,777	(434)
Central services	203,650	203,650	379,466	(175,816)
Coordinator	202,973	202,973	200,766	2,207
Attorney	610,653	610,653	598,729	11,924
Recorder	246,926	246,926	248,370	(1,444)
Planning and zoning	430,958	430,958	416,314	14,644
Buildings and plant	899,861	781,302	728,027	53,275
Veterans service officer	106,951	106,951	106,740	211
Humane society	7,793	7,793	7,793	-
Total general government	\$ 4,880,536	\$ 4,761,977	\$ 4,840,671	\$ (78,694)

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

***Schedule 1
(Continued)***

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,799,460	\$ 1,799,460	\$ 1,955,341	\$ (155,881)
Boat and water safety	63,285	63,285	60,206	3,079
Coroner	23,000	23,000	22,078	922
E-911 system	3,900	3,900	42,233	(38,333)
County jail	2,264,304	2,264,304	2,434,266	(169,962)
Community corrections	374,325	374,325	372,001	2,324
Dispatch	583,557	583,557	432,174	151,383
Emergency management	17,271	17,271	98,120	(80,849)
Total public safety	\$ 5,129,102	\$ 5,129,102	\$ 5,416,419	\$ (287,317)
Health				
Listening Ear Crisis Center	\$ 6,235	\$ 6,235	\$ 6,235	\$ -
Culture and recreation				
Historical society	\$ 4,000	\$ 4,000	\$ 4,000	\$ -
DATA trails	-	-	230,521	(230,521)
Senior citizens	278,503	278,503	263,102	15,401
Central Minnesota elder network	3,000	3,000	3,000	-
Total culture and recreation	\$ 285,503	\$ 285,503	\$ 500,623	\$ (215,120)
Conservation of natural resources				
Cooperative extension	\$ 135,238	\$ 135,238	\$ 146,781	\$ (11,543)
Soil and water conservation	118,405	118,405	118,405	-
Agricultural society/County fair	4,000	4,000	4,000	-
Water planning	25,426	25,426	30,294	(4,868)
Chippewa River watershed sewer project	-	-	36,300	(36,300)
Total conservation of natural resources	\$ 283,069	\$ 283,069	\$ 335,780	\$ (52,711)

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

***Schedule 1
(Continued)***

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Administration - housing authority	\$ 28,614	\$ 28,614	\$ 28,614	\$ -
Other	4,000	4,000	4,000	-
Total economic development	\$ 32,614	\$ 32,614	\$ 32,614	\$ -
Debt service				
Principal retirement	\$ -	\$ 118,559	\$ 108,045	\$ 10,514
Interest	\$ -	\$ -	\$ 18,827	\$ (18,827)
Total Expenditures	\$ 10,617,059	\$ 10,617,059	\$ 11,259,214	\$ (642,155)
Excess of Revenues Over (Under) Expenditures	\$ 584,005	\$ 584,005	\$ 707,780	\$ 123,775
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 600,000	\$ 600,000
Transfers out	(571,130)	(571,130)	(571,130)	-
Promissory notes issued	-	-	36,300	36,300
Total Other Financing Sources (Uses)	\$ (571,130)	\$ (571,130)	\$ 65,170	\$ 636,300
Net Change in Fund Balance	\$ 12,875	\$ 12,875	\$ 772,950	\$ 760,075
Fund Balance - January 1	5,824,330	5,824,330	5,824,330	-
Fund Balance - December 31	\$ 5,837,205	\$ 5,837,205	\$ 6,597,280	\$ 760,075

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,168,400	\$ 2,168,400	\$ 1,976,958	\$ (191,442)
Intergovernmental	3,534,000	3,534,000	4,386,824	852,824
Charges for services	1,179,600	1,179,600	836,647	(342,953)
Investment earnings	-	-	471	471
Miscellaneous	112,000	112,000	285,289	173,289
Total Revenues	\$ 6,994,000	\$ 6,994,000	\$ 7,486,189	\$ 492,189
Expenditures				
Current				
General government				
Surveyor	\$ 278,000	\$ 278,000	\$ 291,186	\$ (13,186)
Highways and streets				
Administration	\$ 244,140	\$ 244,140	\$ 368,791	\$ (124,651)
Maintenance	2,315,600	2,315,600	1,792,172	523,428
Construction	6,094,740	6,094,740	5,287,825	806,915
Equipment maintenance and shop	463,400	463,400	586,349	(122,949)
Materials and services for resale	24,120	24,120	798,630	(774,510)
Other	633,000	633,000	379,773	253,227
Total highways and streets	\$ 9,775,000	\$ 9,775,000	\$ 9,213,540	\$ 561,460
Culture and recreation				
Parks	\$ 251,000	\$ 251,000	\$ 218,358	\$ 32,642
Conservation of natural resources				
Agriculture inspection	\$ 27,000	\$ 27,000	\$ 14,637	\$ 12,363
Intergovernmental				
Highways and streets	\$ 250,000	\$ 250,000	\$ 266,907	\$ (16,907)
Total Expenditures	\$ 10,581,000	\$ 10,581,000	\$ 10,004,628	\$ 576,372

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 2
(Continued)

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess of Revenues Over (Under) Expenditures	\$ (3,587,000)	\$ (3,587,000)	\$ (2,518,439)	\$ 1,068,561
Other Financing Sources (Uses)				
Transfers in	\$ 3,587,000	\$ 3,587,000	\$ 2,162,610	\$ (1,424,390)
Proceeds from sale of assets	-	-	50,000	50,000
Total Other Financing Sources (Uses)	\$ 3,587,000	\$ 3,587,000	\$ 2,212,610	\$ (1,374,390)
Net Change in Fund Balance	\$ -	\$ -	\$ (305,829)	\$ (305,829)
Fund Balance - January 1	825,194	825,194	825,194	-
Increase (decrease) in reserved for inventories	-	-	(20,650)	(20,650)
Fund Balance - December 31	\$ 825,194	\$ 825,194	\$ 498,715	\$ (326,479)

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,149,448	\$ 3,149,448	\$ 3,024,007	\$ (125,441)
Licenses and permits	-	-	11,820	11,820
Intergovernmental	4,675,657	4,675,657	4,532,598	(143,059)
Charges for services	2,900	2,900	292	(2,608)
Miscellaneous	172,478	172,478	168,284	(4,194)
Total Revenues	\$ 8,000,483	\$ 8,000,483	\$ 7,737,001	\$ (263,482)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,734,380	\$ 1,734,380	\$ 1,869,898	\$ (135,518)
Social services	6,266,103	6,266,103	5,923,780	342,323
Total Expenditures	\$ 8,000,483	\$ 8,000,483	\$ 7,793,678	\$ 206,805
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (56,677)	\$ (56,677)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 36,501	\$ 36,501
Transfers out	-	-	(600,000)	(600,000)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (563,499)	\$ (563,499)
Net Change in Fund Balance	\$ -	\$ -	\$ (620,176)	\$ (620,176)
Fund Balance - January 1	2,593,239	2,593,239	2,593,239	-
Fund Balance - December 31	\$ 2,593,239	\$ 2,593,239	\$ 1,973,063	\$ (620,176)

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Ditch 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 no 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, 2004, expenditures exceeded appropriations in the General Fund by \$642,155. 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 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, 2004**

	Special Revenue (Statement B-1)	Bonds and Interest Debt Service	Capital Projects	Total Nonmajor Governmental Funds (Exhibit 3)
<u>Assets</u>				
Cash and pooled investments	\$ 1,024,151	\$ 879,345	\$ 799,702	\$ 2,703,198
Petty cash and change funds	100	-	-	100
Departmental cash	4,612	-	-	4,612
Investments	100,000	-	1,603,281	1,703,281
Taxes receivable				
Current	6,173	18,333	-	24,506
Prior	2,974	4,542	231	7,747
Accounts receivable	70,234	-	-	70,234
Accrued interest receivable	825	-	9,348	10,173
Contracts receivable	33,432	-	-	33,432
Due from other funds	10,977	20,104	-	31,081
Due from other governments	312,454	-	-	312,454
Prepaid items	938	-	-	938
Total Assets	\$ 1,566,870	\$ 922,324	\$ 2,412,562	\$ 4,901,756
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 9,558	\$ -	\$ -	\$ 9,558
Salaries payable	104,591	-	-	104,591
Due to other funds	36,148	410,000	-	446,148
Due to other governments	36,654	-	-	36,654
Deferred revenue - unavailable	267,102	11,111	220	278,433
Deferred revenue - unearned	2,245	-	-	2,245
Total Liabilities	\$ 456,298	\$ 421,111	\$ 220	\$ 877,629
Fund Balances				
Reserved for endowments	\$ 57	\$ -	\$ -	\$ 57
Reserved for Gates Foundation grant	1,224	-	-	1,224
Reserved for library fund drive	158,273	-	-	158,273
Unreserved				
Designated for debt service	-	501,213	-	501,213
Undesignated	951,018	-	2,412,342	3,363,360
Total Fund Balances	\$ 1,110,572	\$ 501,213	\$ 2,412,342	\$ 4,024,127
Total Liabilities and Fund Balances	\$ 1,566,870	\$ 922,324	\$ 2,412,562	\$ 4,901,756

**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, 2004**

	Special Revenue (Statement B-2)	Bonds and Interest Debt Service	Capital Projects	Total Nonmajor Governmental Funds (Exhibit 5)
Revenues				
Taxes	\$ 550,820	\$ 1,651,578	\$ -	\$ 2,202,398
Licenses and permits	112,380	-	-	112,380
Intergovernmental	497,999	197,794	-	695,793
Charges for services	1,845,292	-	-	1,845,292
Fines and forfeits	36,438	-	-	36,438
Gifts and contributions	61,109	-	-	61,109
Investment earnings	1,007	-	40,957	41,964
Miscellaneous	74,926	-	-	74,926
Total Revenues	\$ 3,179,971	\$ 1,849,372	\$ 40,957	\$ 5,070,300
Expenditures				
Current				
Public safety	\$ -	\$ -	\$ 3,941	\$ 3,941
Health	2,683,043	-	-	2,683,043
Culture and recreation	628,822	-	-	628,822
Conservation of natural resources	67,750	-	-	67,750
Capital outlay	-	-	423,629	423,629
Debt service				
Principal retirement	-	810,000	-	810,000
Interest	-	433,141	-	433,141
Administrative (fiscal) charges	-	16,651	-	16,651
Total Expenditures	\$ 3,379,615	\$ 1,259,792	\$ 427,570	\$ 5,066,977
Excess of Revenues Over (Under) Expenditures	\$ (199,644)	\$ 589,580	\$ (386,613)	\$ 3,323
Other Financing Sources (Uses)				
Transfers in	\$ 579,316	\$ -	\$ -	\$ 579,316
Transfers out	-	-	(2,207,297)	(2,207,297)
Total Other Financing Sources (Uses)	\$ 579,316	\$ -	\$ (2,207,297)	\$ (1,627,981)
Net Change in Fund Balance	\$ 379,672	\$ 589,580	\$ (2,593,910)	\$ (1,624,658)
Fund Balance - January 1	730,900	(88,367)	5,006,252	5,648,785
Fund Balance - December 31	\$ 1,110,572	\$ 501,213	\$ 2,412,342	\$ 4,024,127

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Statement B-1

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2004**

	<u>Library</u>	<u>Public Health Nurse</u>	<u>Forfeited Tax Sale</u>	<u>Total (Statement A-1)</u>
<u>Assets</u>				
Cash and pooled investments	\$ 429,213	\$ 527,902	\$ 67,036	\$ 1,024,151
Petty cash and change funds	-	100	-	100
Departmental cash	-	4,612	-	4,612
Investments	-	100,000	-	100,000
Taxes receivable				
Current	6,173	-	-	6,173
Prior	2,974	-	-	2,974
Accounts receivable	100	70,134	-	70,234
Accrued interest receivable	-	825	-	825
Contracts receivable	-	-	33,432	33,432
Due from other funds	-	10,977	-	10,977
Due from other governments	-	312,454	-	312,454
Prepaid items	938	-	-	938
Total Assets	\$ 439,398	\$ 1,027,004	\$ 100,468	\$ 1,566,870
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 2,077	\$ 7,481	\$ -	\$ 9,558
Salaries payable	14,235	90,356	-	104,591
Due to other funds	272	3,021	32,855	36,148
Due to other governments	210	2,263	34,181	36,654
Deferred revenue - unavailable	5,056	228,614	33,432	267,102
Deferred revenue - unearned	-	2,245	-	2,245
Total Liabilities	\$ 21,850	\$ 333,980	\$ 100,468	\$ 456,298
Fund Balances				
Reserved for endowments	\$ 57	\$ -	\$ -	\$ 57
Reserved for Gates Foundation grant	1,224	-	-	1,224
Reserved for library fund drive	158,273	-	-	158,273
Unreserved				
Undesignated	257,994	693,024	-	951,018
Total Fund Balances	\$ 417,548	\$ 693,024	\$ -	\$ 1,110,572
Total Liabilities and Fund Balances	\$ 439,398	\$ 1,027,004	\$ 100,468	\$ 1,566,870

**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, 2004**

	<u>Library</u>	<u>Public Health Nurse</u>	<u>Forfeited Tax Sale</u>	<u>Total (Statement A-2)</u>
Revenues				
Taxes	\$ 550,820	\$ -	\$ -	\$ 550,820
Licenses and permits	-	112,380	-	112,380
Intergovernmental	67,937	430,062	-	497,999
Charges for services	3,314	1,841,978	-	1,845,292
Fines and forfeits	36,438	-	-	36,438
Gifts and contributions	11,925	49,184	-	61,109
Investment earnings	-	1,007	-	1,007
Miscellaneous	-	7,176	67,750	74,926
Total Revenues	\$ 670,434	\$ 2,441,787	\$ 67,750	\$ 3,179,971
Expenditures				
Current				
Health	\$ -	\$ 2,683,043	\$ -	\$ 2,683,043
Culture and recreation	628,822	-	-	628,822
Conservation of natural resources	-	-	67,750	67,750
Total Expenditures	\$ 628,822	\$ 2,683,043	\$ 67,750	\$ 3,379,615
Excess of Revenues Over (Under) Expenditures	\$ 41,612	\$ (241,256)	\$ -	\$ (199,644)
Other Financing Sources (Uses)				
Transfers in	4,016	575,300	-	579,316
Net Change in Fund Balance	\$ 45,628	\$ 334,044	\$ -	\$ 379,672
Fund Balance - January 1	371,920	358,980	-	730,900
Fund Balance - December 31	\$ 417,548	\$ 693,024	\$ -	\$ 1,110,572

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 4

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 613,412	\$ 613,412	\$ 550,820	\$ (62,592)
Intergovernmental	-	-	67,937	67,937
Charges for services	3,500	3,500	3,314	(186)
Fines and forfeits	16,000	16,000	36,438	20,438
Gifts and contributions	3,000	3,000	11,925	8,925
Total Revenues	\$ 635,912	\$ 635,912	\$ 670,434	\$ 34,522
Expenditures				
Current				
Culture and recreation				
County library	635,912	635,912	628,822	7,090
Net Change in Fund Balance	\$ -	\$ -	\$ 41,612	\$ 41,612
Other Financing Sources (Uses)				
Transfers in	-	-	4,016	4,016
Net Change in Fund Balance	\$ -	\$ -	\$ 45,628	\$ 45,628
Fund Balance - January 1	371,920	371,920	371,920	-
Fund Balance - December 31	\$ 371,920	\$ 371,920	\$ 417,548	\$ 45,628

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 5

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Licenses and permits	\$ 113,000	\$ 113,000	\$ 112,380	\$ (620)
Intergovernmental	318,958	318,958	430,062	111,104
Charges for services	1,660,086	1,660,086	1,841,978	181,892
Gifts and contributions	26,500	26,500	49,184	22,684
Interest on investments	4,832	4,832	1,007	(3,825)
Miscellaneous	5,148	5,148	7,176	2,028
Total Revenues	\$ 2,128,524	\$ 2,128,524	\$ 2,441,787	\$ 313,263
Expenditures				
Current				
Health				
Nursing service	2,699,652	2,699,652	2,683,043	16,609
Excess of Revenues Over (Under) Expenditures	\$ (571,128)	\$ (571,128)	\$ (241,256)	\$ 329,872
Other Financing Sources (Uses)				
Transfers in	571,128	571,128	575,300	4,172
Net Change in Fund Balance	\$ -	\$ -	\$ 334,044	\$ 334,044
Fund Balance - January 1	358,980	358,980	358,980	-
Fund Balance - December 31	\$ 358,980	\$ 358,980	\$ 693,024	\$ 334,044

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SALE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ 18,000	\$ 18,000	\$ 67,750	\$ 49,750
Expenditures				
Current				
Conservation of natural resources				
Other	18,000	18,000	67,750	(49,750)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ -	\$ -
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	\$ -	\$ -	\$ -	\$ -

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE
BONDS AND INTEREST DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,822,030	\$ 1,822,030	\$ 1,651,578	\$ (170,452)
Intergovernmental	-	-	197,794	197,794
Total Revenues	\$ 1,822,030	\$ 1,822,030	\$ 1,849,372	\$ 27,342
Expenditures				
Debt service				
Principal retirement	\$ 585,000	\$ 585,000	\$ 810,000	\$ (225,000)
Interest	411,617	411,617	433,141	(21,524)
Administrative (fiscal) charges	-	-	16,651	(16,651)
Total Expenditures	\$ 996,617	\$ 996,617	\$ 1,259,792	\$ (263,175)
Net Change in Fund Balance	\$ 825,413	\$ 825,413	\$ 589,580	\$ (235,833)
Fund Balance - January 1	(88,367)	(88,367)	(88,367)	-
Fund Balance - December 31	\$ 737,046	\$ 737,046	\$ 501,213	\$ (235,833)

**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 collections and payments 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, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FLEXIBLE SPENDING PLANS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 14,758	\$ 260,118	\$ 265,584	\$ 9,292
<u>Liabilities</u>				
Accounts payable	\$ 14,758	\$ 260,118	\$ 265,584	\$ 9,292
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 121,903	\$ 2,033,241	\$ 1,974,779	\$ 180,365
Accounts receivable	15,736	11,168	15,736	11,168
Total Assets	\$ 137,639	\$ 2,044,409	\$ 1,990,515	\$ 191,533
<u>Liabilities</u>				
Due to other governments	\$ 137,639	\$ 2,044,409	\$ 1,990,515	\$ 191,533
 <u>OTHER COLLECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 23,184	\$ 79,865	\$ 89,839	\$ 13,210
<u>Liabilities</u>				
Due to other governments	\$ 23,184	\$ 79,865	\$ 89,839	\$ 13,210

**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, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MENTAL HEALTH COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 173,292	\$ 321,967	\$ 332,152	\$ 163,107
<u>Liabilities</u>				
Due to other governments	\$ 173,292	\$ 321,967	\$ 332,152	\$ 163,107
 <u>FLOOD CONTROL BOARD</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 42,349	\$ 1,049	\$ -	\$ 43,398
<u>Liabilities</u>				
Due to other governments	\$ 42,349	\$ 1,049	\$ -	\$ 43,398
 <u>WEST CENTRAL MINNESOTA DRUG TASK FORCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 174,009	\$ 170,767	\$ 184,070	\$ 160,706
<u>Liabilities</u>				
Due to other governments	\$ 174,009	\$ 170,767	\$ 184,070	\$ 160,706

**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, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>PRIME WEST</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 23	\$ 924,351	\$ 924,374	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 23	\$ 924,351	\$ 924,374	\$ -
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 252,212	\$ 34,766,802	\$ 34,779,854	\$ 239,160
<u>Liabilities</u>				
Due to other governments	\$ 252,212	\$ 34,766,802	\$ 34,779,854	\$ 239,160
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 801,730	\$ 38,558,160	\$ 38,550,652	\$ 809,238
Accounts receivable	15,736	11,168	15,736	11,168
Total Assets	\$ 817,466	\$ 38,569,328	\$ 38,566,388	\$ 820,406
<u>Liabilities</u>				
Accounts payable	\$ 14,758	\$ 260,118	\$ 265,584	\$ 9,292
Due to other governments	802,708	38,309,210	38,300,804	811,114
Total Liabilities	\$ 817,466	\$ 38,569,328	\$ 38,566,388	\$ 820,406

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OTHER SCHEDULES

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 8

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2004**

	<u>Number</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Fair Value</u>
Deposits and Investments				
Cash on hand and departmental checking	N/A	N/A	N/A	\$ 51,829
Interest bearing checking	1	N/A	N/A	91,069
Non-interest bearing checking	3	N/A	N/A	600,746
Certificates of deposit	16	1.40 to 3.05	January 2, 2005 to December 2, 2005	1,690,464
Money market savings with brokers	8	Variable	Continuous	1,031,406
Certificates of deposit with brokers	14	1.70 to 7.00	January 3, 2005 to July 9, 2013	1,305,106
Commercial paper	1	2.52	August 19, 2005	500,866
Federal Home Loan Bank	18	2.00 to 4.00	May 4, 2005 to June 26, 2013	7,532,613
Federal Farm Credit Bank	3	1.80 to 3.40	March 17, 2006 to September 29, 2008	1,671,468
Federal Home Loan Mortgage Corporation	5	2.01 to 6.88	January 15, 2005 to December 15, 2006	4,834,273
Federal National Mortgage Association	6	1.88 to 3.25	January 15, 2005 to December 15, 2009	5,004,383
Government National Mortgage Association	2	9.00	March 15, 2009 to September 15, 2016	5,442
Repurchase agreements	3	Variable	N/A	9,463,454
U.S. Treasury Notes	4	1.63 to 2.00	March 31, 2005 to May 15, 2006	3,054,587
Total Deposits and Investments				<u>\$ 36,837,706</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Cash</u>	<u>Special Assessments Receivable</u>	
		<u>Current</u>	<u>Prior</u>
Joint Ditches			
2	\$ 55,734	\$ -	\$ 2
2 repair and redetermination	2,493	-	-
3	9,807	-	190
4	8,348	-	-
County Ditches			
1	131	4	1
3	207	587	-
4 and 16	7,092	-	-
5	1,092	-	-
6	1,136	12	14
8	387	-	-
9	8,116	215	555
10	1,632	11	-
11	657	-	-
13	3,559	-	-
14	543	-	-
17	2,702	-	-
21	4,572	-	-
22	7,812	-	-
23	462	-	-
98	5,987	-	-
Total	<u>\$ 122,469</u>	<u>\$ 829</u>	<u>\$ 762</u>

Schedule 9

Assets				
Deferred	Due from Other Funds	Due from Other Governments	Prepaid Items	Total
\$ -	\$ -	\$ -	\$ -	\$ 55,736
-	-	-	62	2,555
-	-	-	9	10,006
8,902	45	36	13	17,344
1,023	-	42	2	1,203
17,177	227	2,759	6	20,963
12,175	667	618	6	20,558
731	-	132	2	1,957
1,884	-	106	2	3,154
825	-	981	2	2,195
-	-	-	12	8,898
4,642	-	32	2	6,319
2,761	-	9	2	3,429
-	-	-	2	3,561
1,038	-	-	2	1,583
6,146	428	454	2	9,732
-	-	-	2	4,574
-	-	-	3	7,815
5,482	-	84	3	6,031
-	-	-	6	5,993
\$ 62,786	\$ 1,367	\$ 5,253	\$ 140	\$ 193,606

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

				Liabilities
	Accounts Payable	Contracts Payable	Due to Other Funds	Interest Payable
Joint Ditches				
2	\$ -	\$ -	\$ 2,753	\$ -
2 repair and redetermination	2,462	9,673	668	12,444
3	-	-	308	-
4	160	-	719	-
County Ditches				
1	-	-	117	-
3	-	-	380	-
4 and 16	5,280	-	1,235	-
5	-	-	3	-
6	-	-	64	130
8	150	-	57	-
9	-	-	369	-
10	-	-	28	-
11	-	-	17	-
13	438	-	103	-
14	995	-	23	-
17	210	-	361	-
21	-	-	12	-
22	-	-	118	-
23	-	-	146	-
98	-	-	190	-
Total	<u>\$ 9,695</u>	<u>\$ 9,673</u>	<u>\$ 7,671</u>	<u>\$ 12,574</u>

Schedule 9
(Continued)

Liabilities and Fund Balance				
Deferred Revenue	Advance from Other Funds	Total	Fund Balance Unreserved Undesignated	Total Liabilities and Fund Balance
\$ -	\$ -	\$ 2,753	\$ 52,983	\$ 55,736
-	732,216	757,463	(754,908)	2,555
190	-	498	9,508	10,006
8,938	-	9,817	7,527	17,344
1,067	-	1,184	19	1,203
19,936	124,500	144,816	(123,853)	20,963
12,793	9,000	28,308	(7,750)	20,558
864	1,500	2,367	(410)	1,957
2,015	5,500	7,709	(4,555)	3,154
1,806	-	2,013	182	2,195
729	-	1,098	7,800	8,898
4,674	4,000	8,702	(2,383)	6,319
2,769	1,000	3,786	(357)	3,429
-	-	541	3,020	3,561
1,038	-	2,056	(473)	1,583
6,600	1,000	8,171	1,561	9,732
-	-	12	4,562	4,574
-	-	118	7,697	7,815
5,567	1,000	6,713	(682)	6,031
-	-	190	5,803	5,993
<u>\$ 68,986</u>	<u>\$ 879,716</u>	<u>\$ 988,315</u>	<u>\$ (794,709)</u>	<u>\$ 193,606</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 10

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

		Total Governmental Funds
		Funds
Shared Revenue		
State		
Highway users tax	\$	3,601,109
PERA rate reimbursement		47,124
Disparity reduction aid		6,076
Police aid		106,557
Program aid		1,401,638
E-911		60,304
Market value credit - agricultural		2,856
Market value credit		1,576,882
Mobile home market value credit		7,660
		7,660
Total Shared Revenue	\$	6,810,206
Reimbursement for Services		
State		
Minnesota Department of Human Services	\$	1,713,699
		1,713,699
Payments		
Local		
Teen court	\$	12,100
Other		3,466
Payments in lieu of taxes		1,627
		1,627
Total Payments	\$	17,193
Grants		
State		
Minnesota Department/Board of		
Corrections	\$	98,039
Public Safety		21,858
Transportation		142,120
Health		163,746
Natural Resources		364,854
Human Services		1,669,373
Other		20,707
Peace Officers Board		8,236
University of Minnesota		1,960
		1,960
Total State	\$	2,490,893

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

***Schedule 10
(Continued)***

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

	Total Governmental Funds
Grants (Continued)	
Federal	
Department of Agriculture	\$ 120,150
Justice	2,937
Transportation	298,574
Health and Human Services	1,041,946
Homeland Security	101,222
Environmental Protection Agency	7,372
Total Federal	\$ 1,572,201
Total State and Federal Grants	\$ 4,063,094
Total Intergovernmental Revenue	\$ 12,604,192

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 11

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Douglas County.
- B. A reportable condition in internal control was disclosed by the audit of financial statements of Douglas County and is reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." It was not a material weakness.
- C. No instances of noncompliance material to the financial statements of 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:

Child Care Mandatory and Matching Funds	CFDA #93.596
State Domestic Preparedness Equipment	
Support Program	CFDA #97.004
- 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 and procedures are being followed.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS RESOLVED

Bond and Interest Debt Service Fund Deficit (01-1)

The Bonds and Interest Debt Service Fund ended the year with a fund balance deficit of \$88,367 as a result of an error in calculating the required levy for taxes payable in 2001.

Resolution

The Bonds and Interest Debt Service Fund had a positive fund balance of \$501,213 at December 31, 2004.

Cash Deposited With Brokers (01-2)

A review of brokers' statements for the year disclosed several instances where cash on deposit with brokerage houses exceeded the Securities Investor Protection Corporation insurance coverage of \$100,000.

Resolution

In reviewing the money market account balances with brokers at December 31, 2004, all money market accounts had been depleted except for one that had a sale of an investment near the end of the calendar year.

B. **MANAGEMENT PRACTICES**

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-6 **Ditch Special Revenue Fund Deficit**

Nine of the 20 ditch systems had deficit fund balances as of December 31, 2004, totaling \$895,371, the largest being \$754,908. These nine ditch deficits combine with the remaining ditch systems to leave the Ditch Special Revenue Fund with a total fund balance deficit of \$794,709. 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 sold general obligation ditch bonds to cover the largest ditch deficit in June 2005. The County will continue to work towards eliminating this deficit over the next few years.

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OTHER REQUIRED REPORTS

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PATRICIA ANDERSON
STATE AUDITOR

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING 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 Douglas County as of and for the year ended December 31, 2004, and have issued our report thereon dated August 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the financial statements of the Douglas County Hospital Enterprise Fund and the Housing and Redevelopment Authority of Douglas County, discretely presented component units. Those financial statements were audited by other auditors, whose report thereon has been furnished to us.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Douglas County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 96-4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 23, 2005



PATRICIA ANDERSON
STATE AUDITOR

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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, 2004. 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 each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

Douglas County's financial statements include the operations of the Housing and Redevelopment Authority of Douglas County (HRA), a discrete component unit, which expended \$1,105,056 in federal awards during the year ended December 31, 2004, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the HRA because the HRA had a separate single audit 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, 2004.

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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Douglas County as of and for the year ended December 31, 2004, and have issued our report thereon dated August 23, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Douglas County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 23, 2005

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 12

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 103,730
Passed Through Minnesota Department of Human Services State Administrative Matching Grant for Food Stamp Program	10.561	8,297
Total U.S. Department of Agriculture		\$ 112,027
U.S. Department of Justice		
Direct Bulletproof Vest Partnership Program	16.607	\$ 2,937
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 439,786
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	19,063
Total U.S. Department of Transportation		\$ 458,849
U. S. Environmental Protection Agency		
Passed Through Minnesota Department of Health State Indoor Radon Grant	66.032	\$ 11,599
U.S. Department of Health and Human Services		
Passed Through Minnesota Board on Aging and West Central Area Agency on Aging Special Program for the Aging - Title III-B	93.044	\$ 8,000
Special Program for the Aging - Title III-C	93.045	9,925
Special Programs for the Aging - Title IV and II Discretionary Projects	93.048	3,998
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations	93.779	5,864
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	14,816
Temporary Assistance for Needy Families	93.558	141,985
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	393,608
Foster Care Title IV-E	93.658	113,805
Social Services Block Grant Title XX	93.667	217,858

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**Schedule 12
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services (Continued)		
Chafee Foster Care Independent Living	93.674	11,054
Block Grant - Community Mental Health Services	93.958	6,273
Passed Through Minnesota Department of Health		
Injury Prevention and Control Research Projects	93.136	3,750
Immunization Grants	93.268	900
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	47,279
Temporary Assistance for Needy Families	93.558	22,178
Maternal and Child Health Services Block Grant	93.994	40,653
Total U.S. Department of Health and Human Services		\$ 1,041,946
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
State Domestic Preparedness Equipment Support Program	97.004	\$ 59,227
Emergency Management Performance Grants	97.042	8,636
State and Local All Hazards Emergency Operations Planning	97.051	4,254
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	5,174
Total U.S. Department of Homeland Security		\$ 77,291
Total Federal Awards		\$ 1,704,649

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 basic financial statements. The Housing and Redevelopment Authority of Douglas County component unit expended \$1,105,056 in federal awards not included in this schedule. These federal awards had a separate federal audit 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 2004.