

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA

YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Year Ended December 31, 2005



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

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	15
Statement of Activities	Exhibit 2	17
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	19
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	Exhibit 4	21
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	Exhibit 6	24
Proprietary Funds		
Statement of Net Assets	Exhibit 7	25
Statement of Revenues, Expenses, and Changes in Fund Net Assets	Exhibit 8	27
Statement of Cash Flows	Exhibit 9	28
Fiduciary Funds		
Statement of Fiduciary Net Assets	Exhibit 10	30
Discretely Presented Component Units		
Combining Statement of Net Assets	Exhibit 11	31
Combining Statement of Activities	Exhibit 12	33
Notes to the Financial Statements		35

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Financial Section (Continued)		
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	92
Public Works Fund	Schedule 2	94
Human Services Fund	Schedule 3	95
Notes to the Required Supplementary Information		96
Supplementary Information		
Nonmajor Governmental Funds		
Combining Balance Sheet	Statement A-1	98
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	Statement A-2	99
Combining Balance Sheet - Nonmajor Special Revenue Funds	Statement B-1	100
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Special Revenue Funds	Statement B-2	101
Budgetary Comparison Schedules		
Library Special Revenue Fund	Schedule 4	102
Public Health Nurse Special Revenue Fund	Schedule 5	103
Bonds and Interest Debt Service Fund	Schedule 6	104
Fiduciary Funds		
Agency Funds		105
Combining Statement of Changes in Assets and Liabilities	Statement C-1	106
Other Schedules		
Schedule of Deposits and Investments	Schedule 7	109
Balance Sheet - by Ditch - Ditch Special Revenue Fund	Schedule 8	110
Schedule of Intergovernmental Revenue	Schedule 9	114

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

TABLE OF CONTENTS
(Continued)

	<u>Reference</u>	<u>Page</u>
Management and Compliance Section		
Schedule of Findings and Questioned Costs	Schedule 10	115
Other Required Reports		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		119
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		122
Schedule of Expenditures of Federal Awards	Schedule 11	125

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2005

Office	Name	Term Expires
Commissioners		
1st District	Jerry Johnson	January 2009
2nd District	John Mingus	January 2007
3rd District	Bev Bales	January 2009
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 Schalow	Indefinite
Highway Engineer	David Robley	May 2008
Surveyor	Gary Stevenson	Indefinite
Veterans Service	Ray Kallstrom	September 2007
Medical Examiner	Mark Spanbauer, M.D.	Indefinite
Director - Social Services	Michael Woods	Indefinite
Director - Public Health	Sandy Tubbs	Indefinite

*Chair

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PATRICIA ANDERSON
STATE AUDITOR

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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, 2005, 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, a discretely presented component unit, which represent the Enterprise Fund (96 percent and 99 percent of the assets and program revenues, respectively, of the business-type activities) and 16 percent and 32 percent, respectively, of the assets and program 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise 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 July 31, 2006, 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: July 31, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005
(Unaudited)**

INTRODUCTION

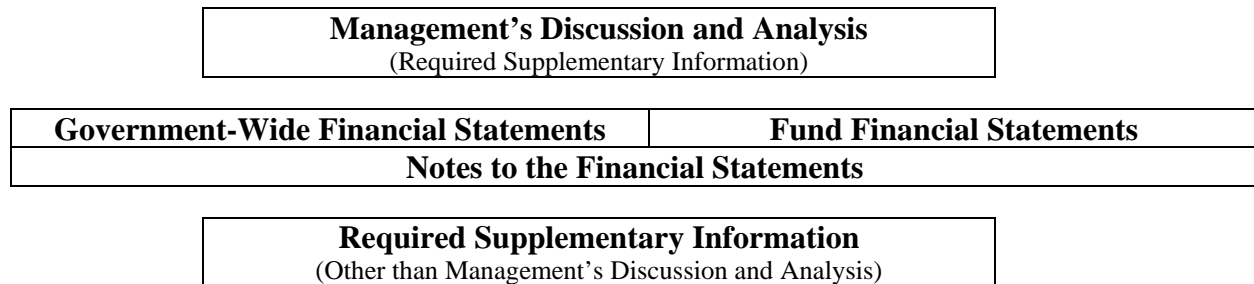
Douglas County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2005. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be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

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$68,185,325, of which \$55,761,865 is invested in capital assets, net of related debt, and \$1,446,716 is restricted to specific purposes/uses by the County.
- Business-type activities have total net assets of \$42,657,074. Invested in capital assets, net of related debt, represents \$18,261,895 of the total; \$731,052 of the total business-type net assets is restricted for specific uses.
- Douglas County's net assets (governmental activities and business-type activities) total \$110,842,399 for the year ended December 31, 2005. Invested in capital assets, net of related debt, represents \$74,023,760 of the total; \$2,177,768 of the total net assets is restricted for specific uses; and \$34,640,871 is unrestricted.
- The net cost of Douglas County's governmental activities for the year ended December 31, 2005, was \$15,388,979. General property tax revenues and other revenue sources totaling \$18,622,421 funded the County's governmental net cost of \$15,388,979.
- Douglas County's governmental funds' fund balances increased by \$4,151,648. Most of the increase was due to the 2005 sale of general obligation road reconstruction bonds in the amount of \$2,680,000 to cover 2006 expenses and the 2005 sale of general obligation ditch bonds in the amount of \$770,000 to cover previous years' expenditures.

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 Housing and Redevelopment Authority of Douglas County. 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	
	2005	2004	2005	2004	2005	2004
Assets						
Current and other assets	\$ 20,988,741	\$ 16,776,864	\$ 31,634,550	\$ 26,952,433	\$ 52,623,291	\$ 43,729,297
Capital assets	65,041,782	63,905,936	18,261,895	22,541,258	83,303,677	86,447,194
Total Assets	\$ 86,030,523	\$ 80,682,800	\$ 49,896,445	\$ 49,493,691	\$ 135,926,968	\$ 130,176,491
Liabilities						
Long-term debt outstanding	\$ 16,068,700	\$ 13,798,131	\$ 2,719,219	\$ 6,142,531	\$ 18,787,919	\$ 19,940,662
Other liabilities	1,776,498	1,932,786	4,520,152	4,033,532	6,296,650	5,966,318
Total Liabilities	\$ 17,845,198	\$ 15,730,917	\$ 7,239,371	\$ 10,176,063	\$ 25,084,569	\$ 25,906,980

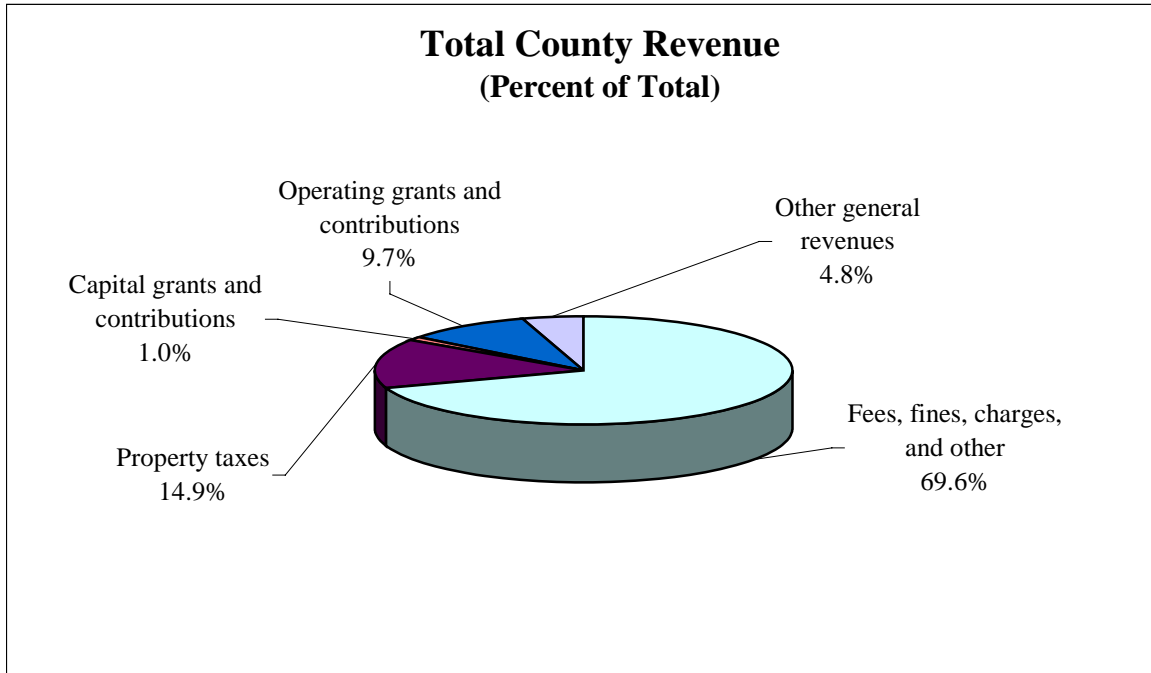
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Net Assets						
Invested in capital assets, net of debt	\$ 55,761,865	\$ 56,030,754	\$ 18,261,895	\$ 18,851,079	\$ 74,023,760	\$ 74,881,833
Restricted	1,446,716	962,928	731,052	162,339	2,177,768	1,125,267
Unrestricted	10,976,744	7,958,201	23,664,127	20,304,210	34,640,871	28,262,411
Total Net Assets	\$ 68,185,325	\$ 64,951,883	\$ 42,657,074	\$ 39,317,628	\$ 110,842,399	\$ 104,269,511

Douglas County's total net assets as of December 31, 2005, total \$110,842,399. The governmental activities' unrestricted net assets totaling \$10,976,744 are available to finance the day-to-day operations of the governmental activities of Douglas County. The remaining unrestricted net assets totaling \$23,664,127 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	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues						
Fees, charges, fines, and other	\$ 5,844,282	\$ 5,460,162	\$ 61,638,034	\$ 57,293,147	\$ 67,482,316	\$ 62,753,309
Operating grants and contributions	9,275,848	9,674,232	160,716	128,571	9,436,564	9,802,803
Capital grants and contributions	370,878	478,397	611,689	61,567	982,567	539,964
General revenues						
Property taxes	14,414,751	13,369,184	-	-	14,414,751	13,369,184
Other taxes	166,160	53,910	-	-	166,160	53,910
Grants and contributions	3,135,279	3,045,702	-	-	3,135,279	3,045,702
Other general revenues	906,231	668,915	470,949	181,455	1,377,180	850,370
Total Revenues	\$ 34,113,429	\$ 32,750,502	\$ 62,881,388	\$ 57,664,740	\$ 96,994,817	\$ 90,415,242
Expenses						
General government	\$ 5,802,643	\$ 5,536,046	\$ -	\$ -	\$ 5,802,643	\$ 5,536,046
Public safety	5,720,109	5,353,660	-	-	5,720,109	5,353,660
Highways and streets	6,464,471	6,678,325	-	-	6,464,471	6,678,325
Human services	7,766,027	7,738,680	-	-	7,766,027	7,738,680
Health	2,780,477	2,688,284	-	-	2,780,477	2,688,284
Culture and recreation	1,217,758	1,409,646	-	-	1,217,758	1,409,646
Conservation of natural resources	542,815	586,431	-	-	542,815	586,431
Economic development	41,795	32,614	-	-	41,795	32,614
Interest	543,892	340,294	-	-	543,892	340,294
Hospital	-	-	59,541,942	55,525,781	59,541,942	55,525,781
Total Expenses	\$ 30,879,987	\$ 30,363,980	\$ 59,541,942	\$ 55,525,781	\$ 90,421,929	\$ 85,889,761
Increase in Net Assets	\$ 3,233,442	\$ 2,386,522	\$ 3,339,446	\$ 2,138,959	\$ 6,572,888	\$ 4,525,481
Net Assets - January 1	64,951,883	62,565,361	39,317,628	37,178,669	104,269,511	99,744,030
Net Assets - December 31	\$ 68,185,325	\$ 64,951,883	\$ 42,657,074	\$ 39,317,628	\$ 110,842,399	\$ 104,269,511

Douglas County’s total revenues for the year ended December 31, 2005, were \$96,994,817. The total cost of the County’s programs and services for the year ended December 31, 2005, was \$90,421,929. The net assets for the County’s governmental activities increased by \$3,233,442, mainly due to construction of additional infrastructure assets funded by state and federal grants.



Governmental Activities

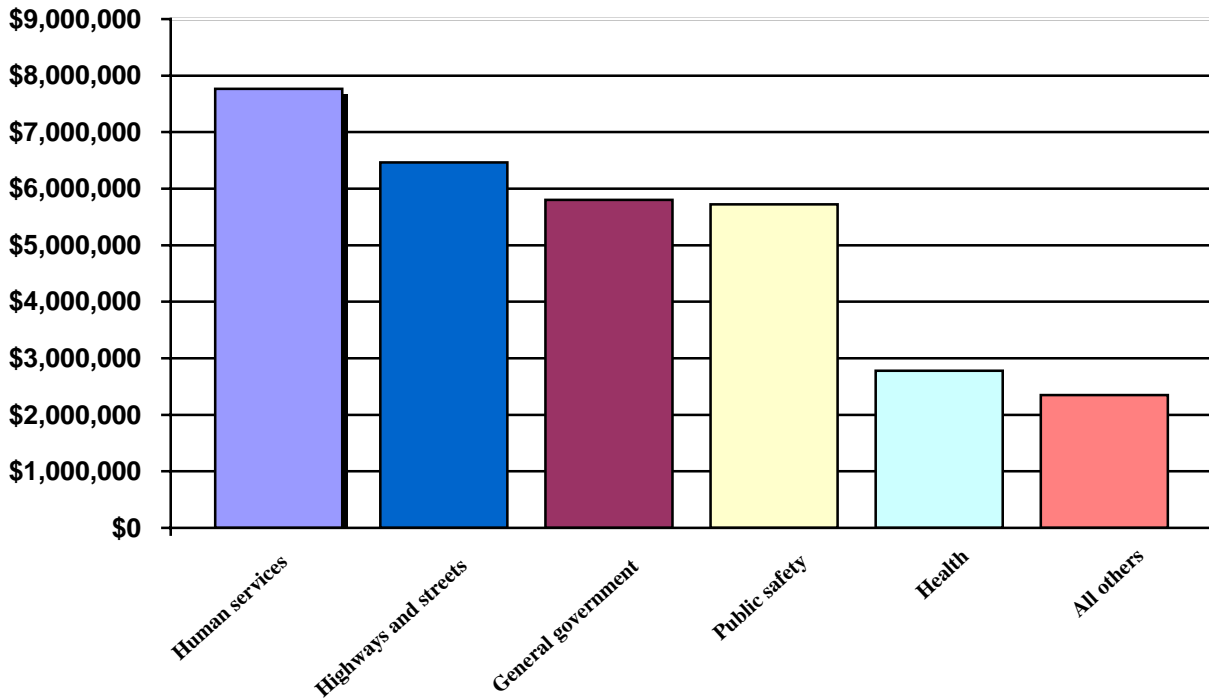
Revenues for Douglas County’s governmental activities for the year ended December 31, 2005, were \$34,113,429. The County’s cost for all governmental activities for the year ended December 31, 2005, was \$30,879,987. As shown in the Statement of Activities, the amount that Douglas County taxpayers ultimately financed for these governmental activities through local property taxation was \$14,414,751 because \$5,844,282 of the cost was paid by those who directly benefited from the programs, and \$9,646,726 was paid by other governments and organizations that subsidized certain programs with grants and contributions. Douglas County paid for the remaining “public benefit” portion of governmental activities with \$4,207,670 in general revenues, primarily grants and contributions, which were not restricted to specific programs or services and with other revenues, such as interest income, mortgage registration tax, and deed tax.

Table 3 presents the cost of each of Douglas County’s five largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden placed on Douglas County’s taxpayers by each of these functions. The net cost of services increased 4.3 percent in part due to the rising cost of energy.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Program Expenses				
Human services	\$ 7,766,027	\$ 7,738,680	\$ 3,479,558	\$ 3,346,605
Highways and streets	6,464,471	6,678,325	1,610,543	1,155,949
General government	5,802,643	5,536,046	4,247,184	4,053,334
Public safety	5,720,109	5,353,660	4,370,099	4,316,960
Health	2,780,477	2,688,284	141,630	264,153
All others	2,346,260	2,368,985	1,539,965	1,614,188
Total Program Expenses	\$ 30,879,987	\$ 30,363,980	\$ 15,388,979	\$ 14,751,189

Governmental Activities Expenses



Business-Type Activities

Revenues of Douglas County’s business-type activities (see Table 2) for the year ended December 31, 2005, were \$62,881,388. Expenses of the County’s business-type activities (see Table 2) for the year ended December 31, 2005, were \$59,541,942. This resulted in an increase in net assets of \$3,339,446. The primary component of this increase was increased revenues due to increased usage in three key areas of the Douglas County Hospital: pharmacy, emergency, and obstetrics.

The County's Funds

As Douglas County completed the year, its governmental funds as presented in the balance sheet, reported a combined fund balance of \$16,450,124, which is above last year's total of \$12,298,476. Included in this year's total fund balance is a surplus of \$7,619,614 in the County's General Fund. The majority of this amount, \$5,739,129, will be used to cash flow the first few months of 2006 until the current year tax collections begin. The General Fund's fund balance increased by \$1,022,334, mostly due to a loan payback from the Ditch Fund. The fund balance of the Capital Projects Fund increased by \$842,351 as a result of the sale of general obligation road reconstruction bonds that will be used to pay for future years' construction of infrastructure.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Douglas County Board of Commissioners, over the course of a budget year, may amend/revise the County's General Fund budget; in 2005, the County Board of Commissioners made minor budgetary amendments/revisions. The minor changes made to the budget as originally adopted on December 14, 2004, by the County Board of Commissioners fall into one of three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts.

In the County's General Fund, the actual revenues were above the expected revenues by \$1,051,089, mostly due to receiving more shared revenue than anticipated. Total actual expenditures in the County's General Fund exceeded the budgeted expenditures by \$69,700. The General Government expenditure category exceeded the budgeted amount due to higher than anticipated energy costs. 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 2005 budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, Douglas County had \$83,303,677 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 decrease (including additions and deductions) of \$3,143,517, or 3.6 percent, over last year. The major decrease in capital assets was due to the Douglas County Hospital's sale of all imaging equipment to Alexandria Center for Diagnostic Imaging, LLC (ACDI).

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

	Governmental Activities		Business-Type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Land	\$ 2,547,967	\$ 2,378,151	\$ 56,930	\$ 56,930	\$ 2,604,897	\$ 2,435,081
Construction in progress	624,818	725,424	-	-	624,818	725,424
Buildings	14,893,662	15,425,490	12,329,668	13,246,804	27,223,330	28,672,294
Land and building improvements	169,287	135,097	405,731	464,529	575,018	599,626
Machinery, furniture, and equipment	2,734,766	2,784,860	5,469,566	8,772,995	8,204,332	11,557,855
Infrastructure	44,071,282	42,456,914	-	-	44,071,282	42,456,914
Totals	\$ 65,041,782	\$ 63,905,936	\$ 18,261,895	\$ 22,541,258	\$ 83,303,677	\$ 86,447,194

This year's major additions include continued infrastructure construction on various highways (both completed and construction in progress).

The County's Capital Projects Fund has \$3,254,693 of available fund balance to be used to finance future capital expenditures. Planned projects for 2006 include road reconstruction and miscellaneous equipment purchases. More detailed information about Douglas County's capital assets can be found in Note 3.A.2. to the Douglas County financial statements.

Debt

As of December 31, 2005, Douglas County had \$14,735,562 in long-term obligations, compared with \$14,459,171 as of December 31, 2004--an increase of 1.9 percent--as shown in Table 5.

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

Bonds Payable	Governmental Activities		Business-Type Activities		Primary Government	
	2005	2004	2005	2004	2005	2004
General Obligation Bonds	\$ 13,995,000	\$ 11,515,000	\$ -	\$ -	\$ 13,995,000	\$ 11,515,000
General Obligation Notes	650,000	880,000	-	-	650,000	880,000
Loans	90,562	53,276	-	-	90,562	53,276
Tax Exempt Revenue Note	-	-	-	2,010,895	-	2,010,895
Totals	\$ 14,735,562	\$ 12,448,276	\$ -	\$ 2,010,895	\$ 14,735,562	\$ 14,459,171

New debt resulted from the sale of General Obligation Road Reconstruction bonds in the amount of \$2,680,000, the sale of General Obligation Ditch Bonds in the amount of \$770,000 (which will be paid for by the taxpayers of that ditch system) and a Sewer Clean Water Partnership Loan with the State of Minnesota Pollution Control Agency in the amount of \$42,944. The Tax Exempt Revenue Note for Douglas County Hospital was retired due to the sale of all imaging equipment to ACDI.

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 \$71,055,620 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 2006 budget, tax rates, and fees that will be charged for the business-type activities.

- For the past few 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 average unemployment rate for 2005 and 2004 remained constant at 3.6 percent. If the unemployment rate should 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 10.8 percent from 2005.
- 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, 2005**

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and pooled investments	\$ 16,079,501	\$ 4,918,060	\$ 20,997,561	\$ 2,711,627
Petty cash and change funds	6,445	525	6,970	300
Departmental cash	359	40,000	40,359	-
Investments	1,062,020	4,004	1,066,024	3,663,052
Taxes receivable				
Current - net	178,155	-	178,155	-
Prior - net	61,067	-	61,067	-
Special assessments receivable				
Current - net	1,321	-	1,321	28,024
Prior - net	1,360	-	1,360	-
Noncurrent - net	189,058	-	189,058	-
Accounts receivable - net	163,455	12,228,411	12,391,866	395,317
Loans receivable - net	147,159	-	147,159	296,982
Accrued interest receivable	64,289	-	64,289	15,498
Contracts receivable	16,716	-	16,716	-
Internal balances	(582)	582	-	-
Due from other governments	2,798,892	-	2,798,892	8,446
Advances to other agencies	12,000	-	12,000	-
Deferred charges	64,912	-	64,912	5,549
Prepaid items	31,799	232,764	264,563	9,375
Inventories	110,815	1,101,104	1,211,919	-
Restricted assets				
Investments	-	-	-	1,482,716
Accrued interest receivable	-	-	-	3,214
Non-current assets				
Funds designated for capital improvements	-	12,608,598	12,608,598	-
Other assets	-	500,502	500,502	-
Capital assets				
Non-depreciable	3,172,785	56,930	3,229,715	349,119
Depreciable - net of accumulated depreciation	61,868,997	18,204,965	80,073,962	15,766,963
Total Assets	\$ 86,030,523	\$ 49,896,445	\$ 135,926,968	\$ 24,736,182

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT 1
(Continued)**

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

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-Type Activities	Total	
Liabilities				
Accounts payable	\$ 558,927	\$ 2,339,537	\$ 2,898,464	\$ 148,979
Salaries payable	575,095	2,180,615	2,755,710	54,044
Accrued payroll taxes	-	-	-	7,030
Contracts payable	143,135	-	143,135	-
Due to other governments	370,483	-	370,483	5,925
Accrued interest payable	123,529	-	123,529	52,981
Unearned revenue	5,329	-	5,329	-
Deposits held for others	-	-	-	15,141
Deferred credits	-	-	-	112,915
Long-term liabilities				
Due within one year	1,602,018	-	1,602,018	151,349
Due in more than one year	14,466,682	2,719,219	17,185,901	2,796,159
Total Liabilities	\$ 17,845,198	\$ 7,239,371	\$ 25,084,569	\$ 3,344,523
Net Assets				
Invested in capital assets - net of related debt	\$ 55,761,865	\$ 18,261,895	\$ 74,023,760	\$ 14,232,955
Restricted for				
General government	190,082	-	190,082	-
Public safety	153,841	-	153,841	-
Highways and streets	886,783	-	886,783	-
Culture and recreation	206,874	-	206,874	-
Conservation of natural resources	9,136	-	9,136	-
Postclosure	-	-	-	755,000
Housing and redevelopment	-	-	-	662,921
Cancer services	-	600,000	600,000	-
Capital acquisitions	-	131,052	131,052	-
Unrestricted	10,976,744	23,664,127	34,640,871	5,740,783
Total Net Assets	\$ 68,185,325	\$ 42,657,074	\$ 110,842,399	\$ 21,391,659

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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

	Expenses	Fees, Charges, Fines, and Other	Program Revenues Operating Grants and Contributions
Functions/Programs			
Primary Government			
Governmental activities			
General government	\$ 5,802,643	\$ 1,422,591	\$ 132,868
Public safety	5,720,109	922,291	427,719
Highways and streets	6,464,471	734,737	3,748,313
Human services	7,766,027	162,427	4,124,042
Health	2,780,477	2,066,776	572,071
Culture and recreation	1,217,758	133,444	170,645
Conservation of natural resources	542,815	402,016	100,190
Economic development	41,795	-	-
Interest	543,892	-	-
Total governmental activities	\$ 30,879,987	\$ 5,844,282	\$ 9,275,848
Business-type activities			
Hospital	59,541,942	61,638,034	160,716
Total primary government	\$ 90,421,929	\$ 67,482,316	\$ 9,436,564
Component Units			
Pope-Douglas Solid Waste	\$ 4,466,256	\$ 3,707,315	\$ 137,969
Housing and Redevelopment Authority	2,124,164	288,976	1,436,717
Total component units	\$ 6,590,420	\$ 3,996,291	\$ 1,574,686

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

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	
\$ -	\$ (4,247,184)	\$ -	\$ (4,247,184)	
-	(4,370,099)	-	(4,370,099)	
370,878	(1,610,543)	-	(1,610,543)	
-	(3,479,558)	-	(3,479,558)	
-	(141,630)	-	(141,630)	
-	(913,669)	-	(913,669)	
-	(40,609)	-	(40,609)	
-	(41,795)	-	(41,795)	
-	(543,892)	-	(543,892)	
\$ 370,878	\$ (15,388,979)	\$ -	\$ (15,388,979)	
611,689	-	2,868,497	2,868,497	
\$ 982,567	\$ (15,388,979)	\$ 2,868,497	\$ (12,520,482)	
\$ -				\$ (620,972)
47,819				(350,652)
\$ 47,819				\$ (971,624)
	\$ 14,414,751	\$ -	\$ 14,414,751	\$ 268,677
	60,359	-	60,359	-
	105,801	-	105,801	-
	3,135,279	-	3,135,279	3,871
	547,391	470,949	1,018,340	160,213
	344,190	-	344,190	79
	14,650	-	14,650	-
	\$ 18,622,421	\$ 470,949	\$ 19,093,370	\$ 432,840
	\$ 3,233,442	\$ 3,339,446	\$ 6,572,888	\$ (538,784)
	64,951,883	39,317,628	104,269,511	21,930,443
	\$ 68,185,325	\$ 42,657,074	\$ 110,842,399	\$ 21,391,659

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT 3

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

	General	Public Works	Human Services	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>					
Cash and pooled investments	\$ 6,838,234	\$ 787,797	\$ 1,976,015	\$ 5,086,982	\$ 14,689,028
Petty cash and change funds	3,870	2,050	425	100	6,445
Undistributed cash in agency funds	133,966	32,447	46,034	43,453	255,900
Departmental cash	-	359	-	-	359
Investments	-	17,840	-	1,044,180	1,062,020
Taxes receivable					
Current	83,162	25,595	36,090	33,308	178,155
Prior	27,387	10,267	15,095	8,318	61,067
Special assessments receivable					
Current	-	199	-	1,122	1,321
Prior	300	-	-	1,060	1,360
Noncurrent	75,615	-	-	113,443	189,058
Accounts receivable	83,103	821	12,900	66,631	163,455
Notes receivable Prime West	147,159	-	-	-	147,159
Accrued interest receivable	55,732	-	-	8,557	64,289
Contracts receivable	-	-	-	16,716	16,716
Due from other funds	432,595	92,966	1,372	15,502	542,435
Due from other governments	314,725	1,358,141	645,996	480,030	2,798,892
Inventories	-	110,815	-	-	110,815
Prepaid items	30,111	500	-	1,188	31,799
Advances to other funds	138,750	-	-	-	138,750
Advances to other agencies	12,000	-	-	-	12,000
Total Assets	\$ 8,376,709	\$ 2,439,797	\$ 2,733,927	\$ 6,920,590	\$ 20,471,023
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 196,164	\$ 59,543	\$ 253,428	\$ 49,792	\$ 558,927
Salaries payable	281,378	85,294	117,956	90,467	575,095
Contracts payable	-	143,135	-	-	143,135
Due to other funds	82,451	1,820	19,886	438,860	543,017
Due to other governments	28,623	8,112	315,898	17,850	370,483
Accrued interest payable	-	-	-	7,703	7,703
Deferred revenue - unavailable	168,479	946,872	63,577	499,532	1,678,460
Deferred revenue - unearned	-	-	5,329	-	5,329
Advance from other funds	-	-	-	138,750	138,750
Total Liabilities	\$ 757,095	\$ 1,244,776	\$ 776,074	\$ 1,242,954	\$ 4,020,899

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT 3
(Continued)**

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

	General	Public Works	Human Services	Other Governmental Funds	Total Governmental Funds
<u>Liabilities and Fund Balances</u>					
(Continued)					
Fund Balances					
Reserved for					
Encumbrances	\$ -	\$ 50,725	\$ -	\$ -	\$ 50,725
Inventories	-	110,815	-	-	110,815
Advances to other funds	138,750	-	-	-	138,750
State-aid highway projects	-	85,283	-	-	85,283
Law library	19,816	-	-	-	19,816
Recorder's equipment	99,675	-	-	-	99,675
Land records modernization	55,847	-	-	-	55,847
Sheriff's contingency	5,000	-	-	-	5,000
Enhanced 911	123,594	-	-	-	123,594
DARE	1,739	-	-	-	1,739
Gun permit funding	13,436	-	-	-	13,436
Sheriff's forfeited property	2,345	-	-	-	2,345
Attorney's forfeited property	14,744	-	-	-	14,744
Park dedication fee	48,601	-	-	-	48,601
Feedlots	3,746	-	-	-	3,746
Environmental mitigation	5,390	-	-	-	5,390
Random drug tests	5,765	-	-	-	5,765
Juvenile work program	1,962	-	-	-	1,962
Notes receivable	147,159	-	-	-	147,159
Library fund drive	-	-	-	158,273	158,273
Unreserved					
Designated for future expenditures	16,297	17,840	-	-	34,137
Designated for cash flows	5,739,129	-	-	-	5,739,129
Designated for capital improvements	218,708	-	-	-	218,708
Designated for extension	5,694	-	-	-	5,694
Designated for medical insurance	43,784	-	-	-	43,784
Designated for section 125	12,000	-	-	-	12,000
Undesignated	896,433	930,358	1,957,853	-	3,784,644
Unreserved, reported in nonmajor					
Special revenue funds	-	-	-	1,383,908	1,383,908
Debt service funds	-	-	-	880,762	880,762
Capital projects funds	-	-	-	3,254,693	3,254,693
Total Fund Balances	\$ 7,619,614	\$ 1,195,021	\$ 1,957,853	\$ 5,677,636	\$ 16,450,124
Total Liabilities and Fund Balances	\$ 8,376,709	\$ 2,439,797	\$ 2,733,927	\$ 6,920,590	\$ 20,471,023

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)	\$	16,450,124
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.		65,041,782
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		1,678,460
The County uses an internal service fund to charge the cost of self-insurance to other funds. The adjustment is the net assets of the Internal Service Fund that relate to governmental activities.		1,134,573
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 obligations bonds	\$ (13,995,000)	
Unamortized premium on bonds	(46,182)	
Unamortized deferred debt issuance costs	64,912	
General obligation notes	(650,000)	
Capital leases	(120,653)	
Loans payable	(90,562)	
Compensated absences	(1,166,303)	
Accrued interest payable on general long-term debt	(115,826)	
	(16,119,614)	
Net assets of governmental activities (Exhibit 1)	\$	<u>68,185,325</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT 5

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

	General	Public Works	Human Services	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 6,829,689	\$ 2,051,667	\$ 2,901,863	\$ 2,683,012	\$ 14,466,231
Special assessments	5,072	-	-	287,818	292,890
Licenses and permits	317,323	-	16,570	114,591	448,484
Intergovernmental	2,310,585	4,754,293	4,758,527	1,052,385	12,875,790
Charges for services	1,756,520	371,232	-	1,971,934	4,099,686
Fines and forfeits	100,776	-	-	30,391	131,167
Gifts and contributions	5,221	-	-	178,078	183,299
Investment earnings	482,610	1,540	-	40,151	524,301
Miscellaneous	509,151	367,784	146,950	47,998	1,071,883
Total Revenues	\$ 12,316,947	\$ 7,546,516	\$ 7,823,910	\$ 6,406,358	\$ 34,093,731
Expenditures					
Current					
General government	\$ 5,135,732	\$ 309,898	\$ -	\$ -	\$ 5,445,630
Public safety	5,502,527	-	-	-	5,502,527
Highways and streets	-	7,762,608	-	-	7,762,608
Human services	-	-	7,839,120	-	7,839,120
Health	6,235	-	-	2,813,797	2,820,032
Culture and recreation	179,545	246,793	-	928,542	1,354,880
Conservation of natural resources	346,663	17,977	-	176,446	541,086
Economic development	41,795	-	-	-	41,795
Intergovernmental	-	255,377	-	-	255,377
Capital outlay	-	-	-	63,620	63,620
Debt service					
Principal	113,610	-	-	1,200,000	1,313,610
Interest	11,451	-	-	420,750	432,201
Bond issuance costs	-	-	-	71,404	71,404
Administrative (fiscal) charges	-	-	-	56,418	56,418
Total Expenditures	\$ 11,337,558	\$ 8,592,653	\$ 7,839,120	\$ 5,730,977	\$ 33,500,308
Excess of Revenues Over (Under) Expenditures	\$ 979,389	\$ (1,046,137)	\$ (15,210)	\$ 675,381	\$ 593,423

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT 5
(Continued)**

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

	<u>General</u>	<u>Public Works</u>	<u>Human Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other Financing Sources (Uses)					
Transfers in	\$ -	\$ 1,727,963	\$ -	\$ 840,833	\$ 2,568,796
Transfers out	-	-	-	(2,568,796)	(2,568,796)
Bonds and notes issued	-	-	-	3,450,000	3,450,000
Premium on bonds issued	-	-	-	50,800	50,800
Proceeds from promissory notes	42,945	-	-	-	42,945
Total Other Financing Sources (Uses)	\$ 42,945	\$ 1,727,963	\$ -	\$ 1,772,837	\$ 3,543,745
Net Change in Fund Balance	\$ 1,022,334	\$ 681,826	\$ (15,210)	\$ 2,448,218	\$ 4,137,168
Fund Balance - January 1	6,597,280	498,715	1,973,063	3,229,418	12,298,476
Increase (decrease) in reserved for inventories	-	14,480	-	-	14,480
Fund Balance - December 31	\$ 7,619,614	\$ 1,195,021	\$ 1,957,853	\$ 5,677,636	\$ 16,450,124

**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, 2005**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 4,137,168

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

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

Deferred revenue - December 31	\$ 1,678,460	
Deferred revenue - January 1	(1,871,666)	(193,206)

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

Expenditures for general capital assets and infrastructure	\$ 3,905,955	
Net book value of assets disposed of	(64,229)	
Current year depreciation	(2,705,880)	1,135,846

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The net proceeds for debt issuance are detailed in Note 1.E. (3,472,341)

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	\$ 970,000	
General notes	230,000	
Capital lease	107,951	
Loans	5,659	1,313,610

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. See Note 1.E. for details. (92,337)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The adjustment is the change in net assets of activities of the Internal Service Fund that relate to governmental activities. 404,702

Change in net assets of governmental activities (Exhibit 2) \$ 3,233,442

PROPRIETARY FUNDS

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT 7

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

	Hospital Operating Enterprise Fund	Internal Service Fund
<u>Assets</u>		
Current assets		
Cash and pooled investments	\$ 2,865,620	\$ 3,187,013
Petty cash and change funds	525	-
Departmental cash	40,000	-
Investments	4,004	-
Accounts receivable - net	12,228,411	-
Due from other funds	-	582
Inventories	1,101,104	-
Prepaid items	232,764	-
	\$ 16,472,428	\$ 3,187,595
Noncurrent assets		
Funds designated for capital improvements	\$ 12,608,598	\$ -
Other assets	500,502	-
Capital assets		
Nondepreciable	56,930	-
Depreciable - net	18,204,965	-
	\$ 31,370,995	\$ -
Total Assets	\$ 47,843,423	\$ 3,187,595
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 1,989,263	\$ 350,274
Salaries payable	2,180,615	-
	\$ 4,169,878	\$ 350,274
Noncurrent liabilities		
Compensated absences payable - long-term	2,719,219	-
	\$ 6,889,097	\$ 350,274

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

***EXHIBIT 7
(Continued)***

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

	Hospital Operating Enterprise Fund	Internal Service Fund
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 18,261,895	\$ -
Restricted for		
Cancer services	600,000	-
Capital acquisitions	131,052	-
Unrestricted	21,961,379	2,837,321
Total Net Assets	\$ 40,954,326	\$ 2,837,321
Adjustment to reflect the consolidation of the Internal Service Fund activities related to the Hospital Operating Enterprise Fund	1,702,748	
Net Assets - Business-Type Activities	\$ 42,657,074	

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Hospital Operating Enterprise Fund	Internal Service Fund
Operating Revenues		
Patient services	\$ 61,248,612	\$ -
Premiums	-	6,417,891
Miscellaneous	389,422	-
	\$ 61,638,034	\$ 6,417,891
Operating Expenses		
Employee benefits and payroll taxes	\$ 6,821,230	\$ -
Professional services	2,330,528	-
Contracted services	3,648,466	-
Claims paid	-	4,692,691
Administration and fiscal services	-	779,990
Supplies	14,596,120	-
Payroll	23,950,436	-
Utilities	903,911	-
Insurance	206,919	-
Rent	472,999	-
Repairs and maintenance	1,269,288	-
Minnesota Care tax and surcharge	1,127,445	-
Miscellaneous	312,874	-
Depreciation	3,746,839	-
	\$ 59,387,055	\$ 5,472,681
Operating Income (Loss)	\$ 2,250,979	\$ 945,210
Nonoperating Revenues (Expenses)		
Interest income	\$ 436,848	\$ 57,191
Noncapital grants and contributions	160,716	-
Gain (loss) on sale/disposal of capital assets	(409,460)	-
Interest expense	(216,004)	-
Other expense	(93,021)	-
	\$ (120,921)	\$ 57,191
Income before contributions and transfers	\$ 2,130,058	\$ 1,002,401
Capital contributions	611,689	-
Change in net assets	\$ 2,741,747	\$ 1,002,401
Net Assets - January 1	38,212,579	1,834,920
Net Assets - December 31	\$ 40,954,326	\$ 2,837,321
Change in Net Assets		
Hospital Operating Enterprise Fund	\$ 2,741,747	
Internal Service Fund activities related to Hospital Operating Enterprise Fund	597,699	
Change in Net Assets of Business-Type Activities	\$ 3,339,446	

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005
Increase (Decrease) in Cash and Cash Equivalents**

	Hospital Operating Enterprise Fund	Internal Service Fund
Cash Flows From Operating Activities		
Receipts from customers and users	\$ 60,077,464	\$ -
Receipts from internal services provided	-	6,523,914
Payments to suppliers	(25,774,568)	(5,353,255)
Payments to employees	(29,280,518)	-
Other receipts and payments	389,422	-
	\$ 5,411,800	\$ 1,170,659
Cash Flows From Noncapital Financing Activities		
Intergovernmental receipts	\$ 67,695	\$ -
Cash Flows From Capital and Related Financing Activities		
Capital contributions	\$ 427,431	\$ -
Principal paid on long-term debt	(3,716,935)	-
Interest paid on long-term debt	(217,186)	-
Proceeds from the sale of capital assets	33,939	-
Purchases of other assets	(75,000)	-
Purchases of capital assets	(1,684,435)	-
	\$ (5,232,186)	\$ -
Cash Flows from Investing Activities		
Investment earnings received	\$ 421,566	\$ 57,191
Change in investments	671,410	-
	\$ 1,092,976	\$ 57,191
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 1,340,285	\$ 1,227,850
Cash and Cash Equivalents at January 1	3,592,150	1,959,163
Cash and Cash Equivalents at December 31	\$ 4,932,435	\$ 3,187,013
Cash and Cash Equivalents - Exhibit 7		
Cash and pooled investments	\$ 2,865,620	\$ 3,187,013
Petty cash and change funds	525	-
Departmental cash	40,000	-
Funds designated for capital improvements	2,026,290	-
	\$ 4,932,435	\$ 3,187,013

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005
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	\$ 2,250,979	\$ 945,210
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	\$ 3,746,839	\$ -
Debt forgiven on physician loans	19,440	-
(Increase) decrease in accounts receivable	(1,039,809)	-
(Increase) decrease in due from other funds	-	106,023
(Increase) decrease in inventories	(121,269)	-
(Increase) decrease in prepaid items	(106,379)	-
Increase (decrease) in accounts payable	208,268	119,426
Increase (decrease) in salaries payable	160,108	-
Increase (decrease) in other accrued expenses	293,623	-
Total adjustments	\$ 3,160,821	\$ 225,449
Net cash provided by operating activities	\$ 5,411,800	\$ 1,170,659

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FIDUCIARY FUNDS

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DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2005

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ 1,035,740
Receivables	
Accounts	<u>16,422</u>
Total Assets	<u>\$ 1,052,162</u>
<u>Liabilities</u>	
Accounts payable	\$ 14,622
Due to other governments	<u>1,037,540</u>
Total Liabilities	<u>\$ 1,052,162</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, 2005**

	<u>Pope-Douglas Solid Waste</u>	<u>Housing and Redevelopment Authority</u>	<u>Total</u>
Assets			
Current assets			
Cash and pooled investments	\$ 2,268,039	\$ 443,588	\$ 2,711,627
Petty cash and change funds	300	-	300
Investments	3,663,052	-	3,663,052
Special assessments			
Current	28,024	-	28,024
Accounts receivable - net	379,351	15,966	395,317
Accrued interest receivable	15,498	-	15,498
Due from other governments	8,446	-	8,446
Loans receivable	-	54,875	54,875
Deferred charges	-	5,549	5,549
Prepaid items	9,375	-	9,375
Total current assets	\$ 6,372,085	\$ 519,978	\$ 6,892,063
Restricted assets			
Investments	\$ 1,134,153	\$ 348,563	\$ 1,482,716
Accrued interest receivable	3,214	-	3,214
Total restricted assets	\$ 1,137,367	\$ 348,563	\$ 1,485,930
Noncurrent assets			
Loans receivable - long-term	\$ -	\$ 242,107	\$ 242,107
Capital assets			
Nondepreciable	179,288	169,831	349,119
Depreciable - net	12,975,721	2,791,242	15,766,963
Total noncurrent assets	\$ 13,155,009	\$ 3,203,180	\$ 16,358,189
Total Assets	\$ 20,664,461	\$ 4,071,721	\$ 24,736,182

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT 11
(Continued)**

**COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2005**

	Pope-Douglas Solid Waste	Housing and Redevelopment Authority	Total
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 105,225	\$ 43,754	\$ 148,979
Salaries payable	54,044	-	54,044
Accrued payroll taxes	-	7,030	7,030
Compensated absences payable - current	59,423	9,822	69,245
Due to other governments	698	5,227	5,925
Accrued interest payable	-	52,981	52,981
Deposits held for others	-	15,141	15,141
Notes payable - current	-	52,104	52,104
Bonds payable - current	-	30,000	30,000
Deferred credits	-	112,915	112,915
Total current liabilities	\$ 219,390	\$ 328,974	\$ 548,364
Noncurrent liabilities			
Compensated absences payable - long term	\$ 73,347	\$ 2,782	76,129
Landfill closure costs - long-term	382,367	-	382,367
Notes payable - long-term	-	237,663	237,663
Bonds payable - long-term	-	2,100,000	2,100,000
Total noncurrent liabilities	\$ 455,714	\$ 2,340,445	\$ 2,796,159
Total Liabilities	\$ 675,104	\$ 2,669,419	\$ 3,344,523
<u>Net Assets</u>			
Invested in capital assets net of related debt	\$ 13,155,009	\$ 1,077,946	\$ 14,232,955
Restricted for			
Postclosure	755,000	-	755,000
Housing and redevelopment	-	662,921	662,921
Unrestricted	6,079,348	(338,565)	5,740,783
Total Net Assets	\$ 19,989,357	\$ 1,402,302	\$ 21,391,659

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Expenses	Fees, Charges, Fines, and Other
Component Units		
Pope-Douglas Solid Waste	\$ 4,466,256	\$ 3,707,315
Housing and Redevelopment Authority	2,124,164	288,976
Total Component Units	\$ 6,590,420	\$ 3,996,291

General Revenues and Other Items

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

Total general revenues and other items

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
\$ 137,969	\$ -	\$ (620,972)	\$ -	\$ (620,972)
1,436,717	47,819	-	(350,652)	(350,652)
\$ 1,574,686	\$ 47,819	\$ (620,972)	\$ (350,652)	\$ (971,624)
		\$ -	\$ 268,677	\$ 268,677
		3,871	-	3,871
		151,844	8,369	160,213
		-	79	79
		\$ 155,715	\$ 277,125	\$ 432,840
		\$ (465,257)	\$ (73,527)	\$ (538,784)
		20,454,614	1,475,829	21,930,443
		\$ 19,989,357	\$ 1,402,302	\$ 21,391,659

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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 a majority of the Board members and must approve any debt.	Pope-Douglas Solid Waste 2115 South Jefferson Alexandria, Minnesota 56308

Joint Ventures

The County participates in several joint ventures described in Note 7.C. The County also participates in a jointly-governed organization described in Note 7.D.

B. Basic Financial Statements

1. Government-Wide Statements

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

**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 that recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

- 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 County reports the following major enterprise fund:

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

Additionally, the County reports the following fund types:

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

C. Measurement Focus and Basis of Accounting

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2005, based on market prices. Pursuant to Minn. Stat. § 385.07,

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

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 2005 were \$569,288.

3. Receivables and Payables

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

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

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

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

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

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.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

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

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.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

10. Fund Equity

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

11. Use of Estimates

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Exhibit 6 Reconciliation Detail

Exhibit 6 includes a reconciliation between changes in fund balances of governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.” Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of the \$3,472,341 are:

Debt issued or incurred	
General obligation bonds issued	\$ 3,450,000
Premium on bonds issued	50,800
Issuance costs	(71,404)
Loans issued	<u>42,945</u>
 Net adjustment to decrease net changes in fund balance to arrive at changes in net assets	 <u>\$ 3,472,341</u>

Another element of that reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this \$92,337 are:

Change in compensated absences	\$ 45,052
Change in accrued interest payable on general long-term debt	59,891
Amortization of deferred debt issuance costs	6,492
Amortization of bond premiums	(4,618)
Change in inventories	<u>(14,480)</u>
 Net adjustment to decrease net changes in fund balance to arrive at changes in net assets	 <u>\$ 92,337</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity

The Ditch Special Revenue Fund had a deficit fund balance of \$41,131 as of December 31, 2005. The Ditch Special Revenue Fund's deficit will be eliminated with future special assessment levies against benefited properties.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 16,079,501
Petty cash and change funds	6,445
Investments	1,062,020
Business-type activities	
Cash and pooled investments	4,918,060
Petty cash and change funds	525
Departmental Cash	40,000
Investments	4,004
Designated for capital improvements	12,608,598
Component units	
Cash and pooled investments	2,711,627
Petty cash and change funds	300
Investments	3,663,052
Restricted assets	
Investments	1,482,716
Statement of fiduciary net assets	
Cash and pooled investments	<u>1,035,740</u>
Total Cash and Investments	<u>\$ 43,612,588</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

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

b. Investments

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

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2005, \$17,700,648 of U.S. government securities, \$5,575,792 of repurchase agreements, \$783,806 of negotiable certificates of deposit, and \$1,507,896 of money market accounts are exposed to custodial credit risk because they are held by the counterparty.

Concentration of Credit Risk

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

The following table presents the County's investment balances at December 31, 2005, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Percent of Portfolio	Maturity Date	
U.S. Government agency securities					
Federal Home Loan Mortgage Corporation				11/17/06	\$ 988,977
Federal Home Loan Mortgage Corporation				6/02/06	495,866
Federal Home Loan Mortgage Corporation				4/28/06	998,475
Federal Home Loan Mortgage Corporation				12/15/06	983,778
Total Home Loan Mortgage Corporation	AAA Aaa	S & P Moody's	11.9%		\$ 3,467,096
Federal National Mortgage Association					
Federal National Mortgage Association				12/21/07	\$ 654,020
Federal National Mortgage Association				12/21/07	594,564
Federal National Mortgage Association				12/21/07	505,379
Federal National Mortgage Association				5/12/06	1,492,924
Federal National Mortgage Association				12/15/09	496,470
Total Federal National Mortgage Association	AAA Aaa	S & P Moody's	12.8%		\$ 3,743,357
Federal Home Loan Bank					
Federal Home Loan Bank				7/27/07	\$ 692,125
Federal Home Loan Bank				12/24/07	458,155
Federal Home Loan Bank				4/08/08	98,306
Federal Home Loan Bank				8/26/09	147,764
Federal Home Loan Bank				5/01/13	98,478
Federal Home Loan Bank				6/26/13	292,581
Federal Home Loan Bank				6/26/13	239,380
Federal Home Loan Bank				2/09/07	99,380
Federal Home Loan Bank				5/24/07	99,357
Federal Home Loan Bank				8/13/08	245,830
Federal Home Loan Bank				8/20/08	173,148
Federal Home Loan Bank				9/15/06	839,639
Federal Home Loan Bank				11/08/07	487,970
Federal Home Loan Bank				3/30/09	501,095
Federal Home Loan Bank				11/08/07	487,970
Federal Home Loan Bank				3/30/09	1,612,704
Federal Home Loan Bank				2/15/06	503,236
Federal Home Loan Bank				7/27/07	502,931

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Investment Type	Credit Risk		Concentration Risk Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
Federal Home Loan Bank				1/28/11	499,827
Federal Home Loan Bank				5/12/08	503,248
Federal Home Loan Bank				11/13/06	493,212
Total Federal Home Loan Bank	AAA Aaa	S & P Moody's	31.0%		\$ 9,076,336
Government National Mortgage Association				3/15/09	\$ 2,236
Government National Mortgage Association				9/15/16	2,732
Total Government National Mortgage Association			N/A		\$ 4,968
Federal Farm Credit Bank				3/17/06	\$ 994,200
Federal Farm Credit Bank				9/29/08	482,548
Federal Farm Credit Bank				3/17/06	198,813
Total Federal Farm Credit Bank	AAA Aaa	S & P Moody's	5.7%		\$ 1,675,561
U.S. Treasury Note				5/15/06	\$ 74,367
U.S. Treasury Note				5/15/06	1,068,659
U.S. Treasury Note				5/15/06	1,338,606
Total U.S. Treasury Notes			N/A		\$ 2,481,632
Mutual Funds					
Milestone Hospital	N/R				\$ 128,854
Milestone PDSW A	N/R				1,524,666
Milestone PDSW B	N/R				51,619
Milestone	N/R				31,553
Wells Fargo Hospital	AAA	S & P			103,044
Piper Jaffray Solid Waste	AAA	Fitch			11,585
Piper Jaffray Capital Improvements	AAA	Fitch			4,117
Wachovia Securities	N/R				25,924
MJSK Capital Improvements	N/R				2
Total Mutual Funds			6.4%	N/A	\$ 1,881,364

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Percent of Portfolio	Maturity Date	
Negotiable Certificates of Deposit					
Negotiable certificates of deposit – MBNA Amer				9/19/06	\$ 96,093
Negotiable certificates of deposit – Waypoint				7/09/13	98,060
Negotiable certificates of deposit – Fremont				1/13/06	98,000
Negotiable certificates of deposit – Lone Star				1/13/06	98,000
Negotiable certificates of deposit – East-West				2/27/06	70,000
Negotiable certificates of deposit – Republic				3/07/06	98,000
Negotiable certificates of deposit – Bangor Savings				3/29/06	98,000
Negotiable certificates of deposit – Two River				6/21/06	98,000
Negotiable certificates of deposit – LaSalle				11/16/07	98,029
Negotiable certificates of deposit – Citizens				4/11/06	99,260
Negotiable certificates of deposit – Franklin				4/13/06	99,235
Negotiable certificates of deposit – Gateway				4/13/06	99,188
Negotiable certificates of deposit – Indymac				4/13/06	99,235
Negotiable certificates of deposit – Peoples				4/13/06	99,265
Total Negotiable Certificates of Deposit	N/R				\$ 1,348,365
Repurchase Agreements					
Bremer Hospital					\$ 2,610,675
Bremer Insurance					2,965,117
Total Repurchase Agreements	N/R		19.1%	N/A	\$ 5,575,792
Total Investments					\$ 29,254,471
Deposits					
Change funds					13,518,696
					47,270
Total Cash and Investments Under Control of County Auditor/Treasurer					\$ 42,820,437
Housing and Redevelopment Authority Cash and Investments (Note 9.B.)					792,151
Total Cash and Investments					\$ 43,612,588

N/A - Not Applicable

N/R - Not Rated

**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, 2005, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 2,378,151	\$ 169,816	\$ -	\$ 2,547,967
Construction in progress	725,424	624,818	725,424	624,818
Total capital assets not depreciated	<u>\$ 3,103,575</u>	<u>\$ 794,634</u>	<u>\$ 725,424</u>	<u>\$ 3,172,785</u>
Capital assets depreciated				
Land and building improvements	\$ 224,673	\$ 46,501	\$ -	\$ 271,174
Buildings	21,158,581	-	-	21,158,581
Machinery, furniture, and equipment	6,400,999	591,544	425,415	6,567,128
Infrastructure	59,788,709	3,198,700	3	62,987,406
Total capital assets depreciated	<u>\$ 87,572,962</u>	<u>\$ 3,836,745</u>	<u>\$ 425,418</u>	<u>\$ 90,984,289</u>
Less: accumulated depreciation for				
Land and building improvements	\$ 89,576	\$ 12,311	\$ -	\$ 101,887
Buildings	5,733,091	531,839	11	6,264,919
Machinery, furniture, and equipment	3,616,139	575,423	359,200	3,832,362
Infrastructure	17,331,795	1,586,307	1,978	18,916,124
Total accumulated depreciation	<u>\$ 26,770,601</u>	<u>\$ 2,705,880</u>	<u>\$ 361,189</u>	<u>\$ 29,115,292</u>
Total capital assets depreciated, net	<u>\$ 60,802,361</u>	<u>\$ 1,130,865</u>	<u>\$ 64,229</u>	<u>\$ 61,868,997</u>
Governmental Activities Capital Assets, Net	<u>\$ 63,905,936</u>	<u>\$ 1,925,499</u>	<u>\$ 789,653</u>	<u>\$ 65,041,782</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Capital Assets (Continued)

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 56,930	\$ -	\$ -	\$ 56,930
Capital assets depreciated				
Land and building improvements	\$ 1,222,340	\$ -	\$ -	\$ 1,222,340
Buildings	27,452,992	115,600	-	27,568,592
Machinery, furniture, and equipment	21,914,172	1,568,835	7,013,897	16,469,110
Total capital assets depreciated	\$ 50,589,504	\$ 1,684,435	\$ 7,013,897	\$ 45,260,042
Less: accumulated depreciation for				
Land and building improvements	\$ 757,811	\$ 58,798	\$ -	\$ 816,609
Buildings	14,206,188	1,032,736	-	15,238,924
Machinery, furniture, and equipment	13,141,177	2,628,548	4,770,181	10,999,544
Total accumulated depreciation	\$ 28,105,176	\$ 3,720,082	\$ 4,770,181	\$ 27,055,077
Total capital assets depreciated, net	\$ 22,484,328	\$ (2,035,647)	\$ 2,243,716	\$ 18,204,965
Business-Type Activities Capital Assets, Net	<u>\$ 22,541,258</u>	<u>\$ (2,035,647)</u>	<u>\$ 2,243,716</u>	<u>\$ 18,261,895</u>

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

Governmental Activities	
General government	\$ 442,347
Public safety	221,783
Highways and streets, including depreciation of infrastructure assets	1,912,729
Human services	12,162
Health	7,314
Culture and recreation	109,545
Total Depreciation Expense - Governmental Activities	<u>\$ 2,705,880</u>
Business-Type Activities	
Hospital operation	<u>\$ 3,720,082</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Public Works	\$ 665
	Human Services	19,403
	Other governmental	<u>412,527</u>
Total Due to General Fund		<u>\$ 432,595</u>
Public Works	General	\$ 76,535
	Human Services	483
	Other governmental	<u>15,948</u>
Total Due to Public Works Fund		<u>\$ 92,966</u>
Human Services	General	\$ 928
	Other governmental	<u>444</u>
Total Due to Human Services Fund		<u>\$ 1,372</u>
Other governmental	General	\$ 4,406
	Public Works	1,155
	Other governmental	<u>9,941</u>
Total Due to other governmental funds		<u>\$ 15,502</u>
Internal Service	General	<u>\$ 582</u>
Total Due To/From Other Funds		<u>\$ 543,017</u>

2. Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Ditch	<u>\$ 138,750</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

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

3. Interfund Transfers

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

Transfers to Public Works Fund from Capital Projects Fund	\$	1,727,963	Provide funding for capital outlay
Transfers to nonmajor governmental funds from Capital Projects Fund		840,833	Provide funding
Total Interfund Transfers	\$	2,568,796	

C. Liabilities

1. Construction Commitments

The government has active construction projects as of December 31, 2005. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities Roads and Bridges	\$ 365,409	\$ 50,725

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 \$1,913,424 at December 31, 2005, 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, 2005, the Hospital had an estimated current sick leave benefit payable of \$64,880 and a long-term benefit payable of \$2,719,219. The statements of revenues, expenses, and changes in net assets include expenses of \$134,404 related to this benefit for the year ended December 31, 2005.

3. Other Postemployment Benefits

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

The County's contribution from the General Fund for the year ended December 31, 2005, for five participants was \$32,344.

**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, 2005, was \$57,559.

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, 2005:

<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	\$ 107,025
2002 Sheriff's dictaphone	2006	Annual	6,814	34,069	13,628
Total Governmental Activities Capital Leases					<u>\$ 120,653</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2005, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2006	\$ 118,469
2007	6,814
Total minimum lease payments	\$ 125,283
Less: amount representing interest	4,630
Present Value of Minimum Lease Payments	<u>\$ 120,653</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Long-Term Debt

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
General Obligation Bonds					
1998A G.O. Capital Improvement Bonds	2011	\$85,000 - \$120,000	3.90 - 4.65	\$ 1,195,000	\$ 635,000
1998B G.O. Capital Improvement Refunding Bonds	2011	\$115,000 - \$165,000	4.10 - 4.65	1,470,000	890,000
2002A G.O. Capital Improvement Bonds	2021	\$45,000 - \$95,000	3.00 - 5.00	1,250,000	1,110,000
2002C G.O. Solid Waste Disposal Bonds	2021	\$180,000 - \$225,000	3.00 - 5.00	3,075,000	2,570,000
2003A G.O. Road Construction Bonds	2014	\$340,000 - \$510,000	1.75 - 3.75	4,315,000	3,975,000
2003C G.O. Refunding Bonds	2011	\$150,000 - \$280,000	1.15 - 3.40	1,845,000	1,365,000
2005A G.O. Road Construction Bonds	2016	\$230,000 - \$310,000	2.75 - 3.70	2,680,000	2,680,000
2005B G.O. Ditch Bonds	2016	\$65,000 - \$90,000	2.80 - 3.70	770,000	770,000
Total General Obligation Bonds				<u>\$ 16,600,000</u>	<u>\$ 13,995,000</u>
General Obligation Notes					
2002B G.O. Capital Notes	2006	\$60,000	1.50 - 3.00	\$ 300,000	\$ 60,000
2003B G.O. Capital Notes	2008	\$165,000 - \$245,000	1.05 - 2.40	925,000	590,000
Total General Obligation Notes				<u>\$ 1,225,000</u>	<u>\$ 650,000</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Long-Term Debt

Governmental Activities (Continued)

Loans Payable

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

<u>Loans Payable</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2005</u>
Energy Conservation Loan	2007	\$5,658	5.50	\$ 56,263	\$ 11,317
Sewer Clean Water Loan	2017	\$2,012	2.00	79,245	79,245
Total Loans Payable				<u>\$ 135,508</u>	<u>\$ 90,562</u>

6. Debt Service Requirements

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

Governmental Activities

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>		<u>Capital Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 1,035,000	\$ 508,603	\$ 230,000	\$ 14,070
2007	1,365,000	457,877	175,000	9,380
2008	1,415,000	418,443	245,000	5,880
2009	1,455,000	374,515	-	-
2010	1,380,000	325,837	-	-
2011 - 2015	5,250,000	945,360	-	-
2016 - 2020	1,775,000	289,670	-	-
2021	320,000	16,000	-	-
Total	<u>\$ 13,995,000</u>	<u>\$ 3,336,305</u>	<u>\$ 650,000</u>	<u>\$ 29,330</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Debt Service Requirements

Governmental Activities (Continued)

Year Ending December 31	Loans Payable	
	Principal	Interest
2006	\$ 5,659	\$ 622
2007	9,257	1,104
2008	7,306	1,476
2009	7,453	1,330
2010	7,603	1,180
2011 - 2015	40,369	3,545
2016 - 2017	12,915	259
Total	<u>\$ 90,562</u>	<u>\$ 9,516</u>

7. Changes in Long-Term Liabilities

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
G.O. bonds	\$ 11,515,000	\$ 3,450,000	\$ 970,000	\$ 13,995,000	\$ 1,035,000
Add: unamortized premium	-	50,800	4,618	46,182	-
G.O. capital notes	880,000	-	230,000	650,000	230,000
Total G.O. bonds and notes	<u>\$ 12,395,000</u>	<u>\$ 3,500,800</u>	<u>\$ 1,204,618</u>	<u>\$ 14,691,182</u>	<u>\$ 1,265,000</u>
Capital leases	228,604	-	107,951	120,653	113,840
Loans payable	53,276	42,945	5,659	90,562	5,658
Compensated absences	1,121,251	959,765	914,713	1,166,303	217,520
Governmental Activities Long-Term Liabilities	<u>\$ 13,798,131</u>	<u>\$ 4,503,510</u>	<u>\$ 2,232,941</u>	<u>\$ 16,068,700</u>	<u>\$ 1,602,018</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue note	\$ 2,010,895	\$ -	\$ 2,010,895	\$ -	\$ -
MRI capital lease	1,706,040	-	1,706,040	-	-
Business-Type Activities Long-Term Liabilities	<u>\$ 3,716,935</u>	<u>\$ -</u>	<u>\$ 3,716,935</u>	<u>\$ -</u>	<u>\$ -</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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.

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the coordinated plan increased in 2006 to 5.5 percent. Public Employees Police and Fire Fund members were required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2005 and 2006:

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

The County's contributions for the years ending December 31, 2005, 2004, and 2003, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2005	\$ 693,859	\$ 123,321	\$ 108,044
2004	658,863	116,606	100,347
2003	622,108	110,209	90,280

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

B. Defined Contribution Plan

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

4. Pension Plans

B. Defined Contribution Plan (Continued)

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

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

The County's contributions for the years ending December 31, 2005, 2004, and 2003, were \$10,704, \$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 MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$760,000 per claim in 2005 and \$390,000 per claim in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

5. Risk Management (Continued)

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

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

Premiums are paid into the Internal Service Fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. The County has retained risk up to a \$100,000 stop-loss per contract claim per year (\$5,999,469 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	
	2005	2004
Unpaid claims, beginning of fiscal year	\$ 230,848	\$ 311,637
Incurred claims (including IBNRs)	4,457,712	4,453,928
Claims payments	(4,338,286)	(4,534,717)
Unpaid Claims, End of Fiscal Year	\$ 350,274	\$ 230,848

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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, 2005.

Patient service revenue	\$	124,865,608
Allowances for contractual adjustments		63,616,996
Net Patient Service Revenue	\$	61,248,612

7. Summary of Significant Contingencies and Other Items

A. Uncompensated Services to Indigent Patients

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

The following is a summary of charity discounts for patient care, the cost in excess of Medicaid public program payments, and the MinnesotaCare tax incurred during the year ended December 31, 2005.

Charity discounts for patient care	\$	446,607
Discount for uninsured patients at gross billing rates		194,686
Cost in excess of Medicare public program payments		1,394,093
MinnesotaCare tax		650,283
Total	\$	2,685,669

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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

B. Contingent Liabilities

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

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

C. Joint Ventures

West Central Area Agency on Aging

The West Central Area Agency on Aging was established June 2, 1982, by a joint powers agreement among Becker, Clay, Douglas, Grant, Otter Tail, Pope, Stevens, Traverse, and Wilkin Counties. The agreement was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the nine-county area. Each county may be assessed a proportional share of the 25 percent of the administrative costs incurred in carrying out this agreement. Each county's proportional share of this 25 percent of the administrative costs will be based upon the number of persons age 60 or older living within that county. In 2005, the County paid \$4,620 to the West Central Area Agency on Aging as its share of the 2005 assessment. Any county may withdraw by providing notice to the chair of the Board 90 days prior to the beginning of the fiscal year. The chair shall forward a copy to each of the counties. Withdrawal shall not act to discharge any liability incurred or chargeable to any county before the effective date of the withdrawal.

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

Complete financial information can be obtained from:

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Rainbow Rider Transit Board

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

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

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

Complete financial information can be obtained from:

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

West Central Minnesota Drug Task Force

The West Central Minnesota Drug Task Force was established in 1996 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Becker, Clay, Douglas, Grant, Otter Tail, and Todd Counties, and the Cities of

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

West Central Minnesota Drug Task Force (Continued)

Alexandria, Breckenridge, Detroit Lakes, Fargo, Fergus Falls, Moorhead, Pelican Rapids, Perham, and Wahpeton. The Task Force's objectives are to detect, investigate, and apprehend controlled substance offenders in the six-county area.

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

The Task Force is reported as an agency fund in Douglas County's financial statements. Financing and equipment will be provided by the full-time and associate member agencies. Douglas County provided \$9,850 to this organization in 2005.

Prime West Central County-Based Purchasing Initiative

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

Control of the Prime West Central County-Based Purchasing Initiative is vested in a Joint Powers Board, comprising one commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

In the event of termination of the joint powers agreement, all property purchased or owned pursuant to this agreement shall be sold and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional share of each member's county-based purchasing-eligible population.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Prime West Central County-Based Purchasing Initiative (Continued)

Financing is provided by medical assistance and general assistance medical care payments from the Minnesota Department of Human Services; initial start-up loans from the member counties; and by proportional contributions from member counties, if necessary, to cover operational costs. Douglas County did not contribute any funds to the Prime West Central County-Based Purchasing Initiative during 2005.

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 2005, Douglas County did not contribute any money to the Joint Powers Board.

Complete financial information can be obtained from:

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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

D. Jointly-Governed Organization

District IV Transportation Planning

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

8. Pope-Douglas Solid Waste

A. Summary of Significant Accounting Policies

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

1. Financial Reporting Entity

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

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

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.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste

A. Summary of Significant Accounting Policies (Continued)

2. Basic Financial Statements

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

3. Measurement Focus and Basis of Accounting

The Board's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Special assessments are recognized as revenues in the year for which they are levied. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first and then unrestricted as needed.

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 Board. Douglas County obtains collateral to cover the deposits in excess of insurance coverage.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste

A. Summary of Significant Accounting Policies

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

Fund Investments

The Douglas County Auditor/Treasurer purchases investments for the Pope-Douglas Solid Waste Board upon its direction. Fund investments are reported at fair value at December 31, 2005, based on market prices. Interest earned on such restricted investments is credited to the Board. Additional disclosures as required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, are disclosed on a County-wide basis in the Douglas County Annual Financial Report.

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

Receivables

All receivables are shown net of an allowance for uncollectibles.

Special assessments receivable consist of delinquent special assessments payable in the years 2000 through 2005 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.

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, 2005.

Restricted for closure/postclosure	\$ 1,134,153
Accrued interest on restricted investments	<u>3,214</u>
Total	<u>\$ 1,137,367</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste

A. Summary of Significant Accounting Policies

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

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:

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

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.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste

A. Summary of Significant Accounting Policies

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

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. Prior Period Adjustment

In prior years, depreciation expense on land improvements was overstated. The January 1, 2005, capital assets have been restated to correct this error. The effect on net assets is:

Net Assets - January 1	\$ 18,945,693
Prior period adjustment	<u>1,508,921</u>
Net Assets - January 1, as restated	<u>\$ 20,454,614</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste (Continued)

B. Detailed Notes

1. Assets

Receivables

Receivables as of December 31, 2005, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Special assessments	\$ 28,024	\$ -
Accounts	379,351	-
Interest - unrestricted	15,498	-
Due from other governments	8,446	-
Interest - restricted	3,214	-
Total	\$ 434,533	\$ -

Capital Assets

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

	Beginning Balance (Restated)	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 179,288	\$ -	\$ -	\$ 179,288
Capital assets depreciated				
Land improvements	\$ 3,377,612	\$ -	\$ -	\$ 3,377,612
Buildings	6,065,561	-	-	6,065,561
Machinery, furniture, and equipment	8,663,909	52,053	3,260	8,712,702
Total capital assets depreciated	\$ 18,107,082	\$ 52,053	\$ 3,260	\$ 18,155,875
Less: accumulated depreciation for				
Land improvements	\$ 565,509	\$ 143,320	\$ -	\$ 708,829
Buildings	1,589,522	196,802	-	1,786,324
Machinery, furniture, and equipment	2,083,163	602,163	325	2,685,001
Total accumulated depreciation	\$ 4,238,194	\$ 942,285	\$ 325	\$ 5,180,154
Total capital assets depreciated, net	\$ 13,868,888	\$ (890,232)	\$ 2,935	\$ 12,975,721
Capital Assets, Net	\$ 14,048,176	\$ (890,232)	\$ 2,935	\$ 13,155,009

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste

B. Detailed Notes (Continued)

2. Liabilities

Payables

Payables at December 31, 2005, were as follows:

	Payables
Accounts	\$ 105,225
Salaries	54,044
Due to other governments	698
Total Payables	\$ 159,967

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 \$144,000 in 2005. The lease, beginning August 16, 2004, is for a two-year period and contains a 90-day cancellation notice by either party.

Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for Landfill closure and postclosure costs	\$ 210,616	\$ 171,751	\$ -	\$ 382,367	\$ -
Compensated absences	122,226	75,579	65,035	132,770	59,423
Long-Term Liabilities	\$ 332,842	\$ 247,330	\$ 65,035	\$ 515,137	\$ 59,423

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste (Continued)

C. Employee Retirement Systems and Pension Plans

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

The Board's contributions for the years ending December 31, 2005, 2004, and 2003, were \$65,239, \$60,760, and \$54,317, respectively, equal to the contractually required contributions for each year as set by state statute.

D. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the Board to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$382,367 landfill closure and postclosure care liability at December 31, 2005, represents the cumulative amount reported to date based on the use of 6.9 percent of the estimated capacity of the landfill. The Board will recognize the remaining estimated cost of closure and postclosure care of \$1,104,355 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2005. The Board expects to close the landfill in 2161. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The Board is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Board is in compliance with these requirements and, at December 31, 2005, investments of \$1,134,153 are held for these purposes. These are reported as restricted assets on the statement of net assets. The Board expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste (Continued)

E. Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the Board carries commercial insurance. To cover these risks, the Board is a member of both the Minnesota Counties Insurance Trust (MCIT) Workers' Compensation and Property and Casualty Divisions. For other risk, the Board carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

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

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

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

F. Summary of Significant Contingencies and Other Items

1. Contingent Liabilities

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope-Douglas Solid Waste

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

2. Designated Funds

The Board has set aside funds for construction of a landfill and equipment replacement. Below is a summary of the investments set aside at December 31, 2005.

Designated for landfill construction	\$	1,120,806
Designated for equipment replacement		3,856,022
Total	\$	4,976,828

3. Operating Budgets

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	\$ 1,920,700	\$ 2,513,865	\$ 593,165
Operating Expenses	3,152,671	4,466,256	(1,313,585)
Operating Income (Loss)	\$ (1,231,971)	\$ (1,952,391)	\$ (720,420)
Nonoperating Revenues (Expenses)	1,231,971	1,487,134	255,163
Net Income (Loss)	\$ -	\$ (465,257)	\$ (465,257)

4. Affiliated Debt

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

Type of Indebtedness	Final Maturity	Installment Amounts	Net Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
2002 Pope County G.O. Solid Waste Bonds	2011	\$90,000 - \$115,000	3.3531	\$ 1,030,000	\$ 640,000
2002C Douglas County G.O. Solid Waste Disposal Bonds	2021	\$105,000 - \$225,000	4.5377	\$ 3,075,000	\$ 2,570,000

**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

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

A. Summary of Significant Accounting Policies (Continued)

3. Measurement Focus and Basis of Accounting

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

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

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

4. Investments

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

5. Accounts Receivable

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

A. Summary of Significant Accounting Policies (Continued)

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 assets costing more than \$200.

7. Budgetary Process

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

8. Estimates

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

9. Cash Equivalents

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

B. Cash and Investments

Cash and investments as of December 31, 2005, are classified in the accompanying financial statements as follows:

Statement of net assets	
Cash and cash equivalents	<u>\$ 443,588</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

B. Cash and Investments (Continued)

Cash and investments as of December 31, 2005, consist of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand deposits	<u>\$ 443,588</u>	<u>\$ 453,869</u>

Restricted investments of \$348,563 are entirely invested in money market accounts where the book carrying and the bank balance are the same. All except \$19,717 of these investments are held in trust with a large banking institution.

Investments Authorized by the HRA's Investment Policy

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

Disclosures Relating to Interest Rate Risk

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

Disclosures Relating to Credit Risk

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

Disclosures Relating to Concentration of Credit Risk

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

B. Cash and Investments (Continued)

Disclosures Relating to Custodial Credit Risk

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

The HRA has \$373,205 in deposits with the financial institutions in excess of federal depository insurance limits that were held in uncollateralized accounts at December 31, 2005.

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

C. Property and Equipment

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

	Balances January 1, 2005	Additions	Disposals	Balances December 31, 2005
PHA Owned				
Land and improvements	\$ 263,546	\$ -	\$ -	\$ 263,546
Buildings and improvements	1,667,532	51,697	-	1,719,229
Furniture and equipment	37,616	1,136	-	38,752
Subtotal	\$ 1,968,694	\$ 52,833	\$ -	\$ 2,021,527
Less: accumulated depreciation	948,762	65,076	-	1,013,838
Total PHA Owned	\$ 1,019,932	\$ (12,243)	\$ -	\$ 1,007,689

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

C. Property and Equipment (Continued)

	Balances January 1, 2005	Additions	Disposals	Balances December 31, 2005
Housing Choice Vouchers				
Leasehold improvements	\$ 4,177	\$ -	\$ -	\$ 4,177
Office equipment	10,634	-	-	10,634
Subtotal	\$ 14,811	\$ -	\$ -	\$ 14,811
Less: accumulated depreciation	14,535	276	-	14,811
Total Housing Choice Vouchers	\$ 276	\$ (276)	\$ -	\$ -
RECD				
Land and improvements	\$ 16,179	\$ -	\$ -	\$ 16,179
Buildings and improvements	127,983	-	-	127,983
Furniture and equipment	22,995	466	400	23,061
Subtotal	\$ 167,157	\$ 466	\$ 400	\$ 167,223
Less: accumulated depreciation	37,177	7,809	400	44,586
Total RECD	\$ 129,980	\$ (7,343)	\$ -	\$ 122,637
Administrative Fund				
Furniture and equipment	\$ 71,022	\$ -	\$ -	\$ 71,022
Less: accumulated depreciation	62,981	5,893	-	68,874
Total Administrative Fund	\$ 8,041	\$ (5,893)	\$ -	\$ 2,148
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	84,985	28,893	-	113,878
Total Cardinal Estates	\$ 1,163,524	\$ (28,893)	\$ -	\$ 1,134,631
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	37,778	20,228	-	58,006
Total Garfield Creamery Project	\$ 714,196	\$ (20,228)	\$ -	\$ 693,968
Totals	\$ 3,035,949	\$ (74,876)	\$ -	\$ 2,961,073

**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, 2005, 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, 2005.

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, 2005, the HRA has not drawn any of its available line, leaving \$25,000 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>
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	4,564	4,042	8,606
2011 - 2015	29,170	13,858	43,028
2016 - 2018	18,851	1,943	20,794
Totals	<u>\$ 67,601</u>	<u>\$ 39,251</u>	<u>\$ 106,852</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>
2006	\$ 44,800	\$ -	\$ 44,800
2007	44,800	-	44,800
2008	44,800	-	44,800
2009	44,800	-	44,800
Totals	<u>\$ 179,200</u>	<u>\$ -</u>	<u>\$ 179,200</u>

General Obligation Housing Bonds

The HRA, in June 2001, issued \$1,500,000 General Obligation Governmental Housing Bonds, Series 2001A. These bonds were issued to finance all costs associated with acquiring needed land and building a ten-unit housing facility on Cardinal Lane in Alexandria, Minnesota, and a two-unit housing facility in Nelson Second Addition in Evansville, Minnesota. The bond issue and related activity is included in this report under the caption of "Cardinal Estates." At December 31, 2001, construction was

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

E. Long-Term Obligations

General Obligation Housing Bonds (Continued)

completed; and the units were available for occupancy. The units were first rented and occupied beginning in February 2002. The annual requirements to retire the bonds are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	20,000	73,540	93,540
2011 - 2015	135,000	351,401	486,401
2016 - 2020	205,000	309,513	514,513
2021 - 2025	325,000	243,305	568,305
2026 - 2030	485,000	138,391	623,391
2031 - 2032	250,000	14,025	264,025
Totals	<u>\$ 1,480,000</u>	<u>\$ 1,431,812</u>	<u>\$ 2,911,812</u>

Cardinal Estates - Special Assessments

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

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,012	282	2,294
2011	2,012	141	2,153
Totals	<u>\$ 12,072</u>	<u>\$ 3,041</u>	<u>\$ 15,113</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

E. Long-Term Obligations (Continued)

Garfield Creamery Apartment Project

Also in June 2001, the HRA borrowed \$38,000 at an interest rate of 7.9 percent to purchase an old creamery building in Garfield, Minnesota. Monthly installments of \$362, including interest, will be made for 15 years to pay off the loan. The balance at December 31, 2005, 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 accounted for separately by the HRA. The annual requirements to retire the loan are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,704	1,640	4,344
2010 - 2015	17,226	4,494	21,720
2016	2,050	46	2,096
Totals	<u>\$ 30,894</u>	<u>\$ 14,642</u>	<u>\$ 45,536</u>

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

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	30,000	25,256	55,256
2011 - 2015	160,000	107,304	267,304
2016 - 2020	210,000	65,133	275,133
2021 - 2023	155,000	11,875	166,875
Totals	<u>\$ 650,000</u>	<u>\$ 320,318</u>	<u>\$ 970,318</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 or her annuity. For 2005, employee elective deferrals were available to a maximum of \$14,000 annually (\$18,000 for those over age 50). The payroll for employees covered by the plan for the year ended December 31, 2005, was \$230,954, equal to the HRA's total payroll for the year. HRA contributions to the plan for the three years ended December 31, 2005, 2004, and 2003, equaled \$16,563, \$14,165, and \$15,399, respectively.

G. Risk Management

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

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REQUIRED SUPPLEMENTARY INFORMATION

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 7,551,669	\$ 7,551,669	\$ 6,829,689	\$ (721,980)
Special assessments	-	-	5,072	5,072
Licenses and permits	354,100	354,100	317,323	(36,777)
Intergovernmental	1,461,867	1,461,867	2,310,585	848,718
Charges for services	1,376,570	1,376,570	1,756,520	379,950
Fines and forfeits	65,500	65,500	100,776	35,276
Gifts and contributions	1,600	1,600	5,221	3,621
Investments earnings	200,844	200,844	482,610	281,766
Miscellaneous	253,708	253,708	509,151	255,443
Total Revenues	\$ 11,265,858	\$ 11,265,858	\$ 12,316,947	\$ 1,051,089
Expenditures				
Current				
General government				
Commissioners	\$ 227,346	\$ 227,346	\$ 217,310	\$ 10,036
Courts	39,000	39,000	47,104	(8,104)
Law library	34,000	34,000	23,527	10,473
County auditor-treasurer	383,359	383,359	356,632	26,727
License bureau	314,662	314,662	341,720	(27,058)
County assessor	511,125	513,125	508,527	4,598
Elections	6,500	6,500	3,666	2,834
Accounting and auditing	40,000	40,000	57,996	(17,996)
Information systems	557,452	557,452	568,021	(10,569)
Central services	383,000	383,000	410,656	(27,656)
Coordinator	212,772	212,772	212,267	505
Attorney	655,564	655,564	679,454	(23,890)
Recorder	262,513	262,513	313,797	(51,284)
Planning and zoning	450,741	450,741	368,045	82,696
Buildings and plant	809,420	809,420	897,637	(88,217)
Veterans service officer	114,346	114,346	121,580	(7,234)
Humane Society	7,793	7,793	7,793	-
Total general government	\$ 5,009,593	\$ 5,011,593	\$ 5,135,732	\$ (124,139)
Public safety				
Sheriff	\$ 2,169,254	\$ 2,169,254	\$ 2,109,450	\$ 59,804
Boat and water safety	85,525	85,525	79,776	5,749
Coroner	23,000	23,000	22,230	770
E-911 system	7,300	7,300	36,367	(29,067)
County jail	2,621,508	2,621,508	2,631,009	(9,501)
Community corrections	394,547	394,547	354,805	39,742
Dispatch	489,204	489,204	245,259	243,945
Emergency management	17,175	17,175	23,631	(6,456)
Total public safety	\$ 5,807,513	\$ 5,807,513	\$ 5,502,527	\$ 304,986

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

*Schedule 1
(Continued)*

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Health				
Listening Ear Crisis Center	\$ 6,235	\$ 6,235	\$ 6,235	\$ -
Culture and recreation				
Historical society	\$ 4,000	\$ 4,000	\$ 4,000	\$ -
DATA trails	-	-	169,545	(169,545)
Central Minnesota elder network	6,000	6,000	6,000	-
Total culture and recreation	\$ 10,000	\$ 10,000	\$ 179,545	\$ (169,545)
Conservation of natural resources				
Cooperative extension	\$ 112,155	\$ 112,155	\$ 118,743	\$ (6,588)
Soil and water conservation	130,894	156,320	180,975	(24,655)
Agricultural society/County fair	4,000	4,000	4,000	-
Water planning	25,426	-	-	-
Chippewa River watershed sewer project	-	-	42,945	(42,945)
Total conservation of natural resources	\$ 272,475	\$ 272,475	\$ 346,663	\$ (74,188)
Economic development				
Administration - housing authority	\$ 33,795	\$ 33,795	\$ 33,795	\$ -
Other	8,000	8,000	8,000	-
Total economic development	\$ 41,795	\$ 41,795	\$ 41,795	\$ -
Debt service				
Principal	\$ 106,796	\$ 106,796	\$ 113,610	\$ (6,814)
Interest	\$ 11,451	\$ 11,451	\$ 11,451	\$ -
Total Expenditures	\$ 11,265,858	\$ 11,267,858	\$ 11,337,558	\$ (69,700)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ (2,000)	\$ 979,389	\$ 981,389
Other Financing Sources (Uses)				
Proceeds from promissory notes	-	-	42,945	42,945
Net Change in Fund Balance	\$ -	\$ (2,000)	\$ 1,022,334	\$ 1,024,334
Fund Balance - January 1	6,597,280	6,597,280	6,597,280	-
Fund Balance - December 31	\$ 6,597,280	\$ 6,595,280	\$ 7,619,614	\$ 1,024,334

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,281,414	\$ 2,281,414	\$ 2,051,667	\$ (229,747)
Intergovernmental	4,457,586	4,457,586	4,754,293	296,707
Charges for services	530,000	530,000	371,232	(158,768)
Investment earnings	-	-	1,540	1,540
Miscellaneous	102,000	102,000	367,784	265,784
Total Revenues	\$ 7,371,000	\$ 7,371,000	\$ 7,546,516	\$ 175,516
Expenditures				
Current				
General government				
Surveyor	\$ 360,840	\$ 360,840	\$ 309,898	\$ 50,942
Highways and streets				
Administration	\$ 507,600	\$ 507,600	\$ 370,564	\$ 137,036
Maintenance	1,657,000	1,657,000	1,887,583	(230,583)
Construction	5,577,500	5,577,500	4,026,222	1,551,278
Equipment maintenance and shop	575,500	575,500	543,819	31,681
Materials and services for resale	223,000	223,000	791,880	(568,880)
Other	150,000	150,000	142,540	7,460
Total highways and streets	\$ 8,690,600	\$ 8,690,600	\$ 7,762,608	\$ 927,992
Culture and recreation				
Parks	\$ 267,560	\$ 267,560	\$ 246,793	\$ 20,767
Conservation of natural resources				
Agriculture inspection	\$ 32,000	\$ 32,000	\$ 17,977	\$ 14,023
Intergovernmental				
Highways and streets	\$ 280,000	\$ 280,000	\$ 255,377	\$ 24,623
Total Expenditures	\$ 9,631,000	\$ 9,631,000	\$ 8,592,653	\$ 1,038,347
Excess of Revenues Over (Under) Expenditures	\$ (2,260,000)	\$ (2,260,000)	\$ (1,046,137)	\$ 1,213,863
Other Financing Sources (Uses)				
Transfers in	2,260,000	2,260,000	1,727,963	(532,037)
Net Change in Fund Balance	\$ -	\$ -	\$ 681,826	\$ 681,826
Fund Balance - January 1	498,715	498,715	498,715	-
Fund Balance - December 31	\$ 498,715	\$ 498,715	\$ 1,195,021	\$ 696,306

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,217,028	\$ 3,217,028	\$ 2,901,863	\$ (315,165)
Licenses and permits	7,500	7,500	16,570	9,070
Intergovernmental	4,002,824	4,002,824	4,758,527	755,703
Charges for services	1,200	1,200	-	(1,200)
Miscellaneous	149,201	149,201	146,950	(2,251)
Total Revenues	\$ 7,377,753	\$ 7,377,753	\$ 7,823,910	\$ 446,157
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,860,245	\$ 1,860,245	\$ 1,958,251	\$ (98,006)
Social services	5,517,508	5,517,508	5,880,869	(363,361)
Total Expenditures	\$ 7,377,753	\$ 7,377,753	\$ 7,839,120	\$ (461,367)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (15,210)	\$ (15,210)
Fund Balance - January 1	1,973,063	1,973,063	1,973,063	-
Fund Balance - December 31	\$ 1,973,063	\$ 1,973,063	\$ 1,957,853	\$ (15,210)

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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

1. Budgetary Information

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

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

The appropriated budget is prepared by fund, function, and department. The County's department head may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made budgetary amendments. Encumbrance accounting is employed in governmental funds.

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2005, expenditures exceeded appropriations in the General Fund and the Human Services Fund by \$69,700 and \$461,367, respectively. These expenditures in excess of budget were funded by greater than anticipated revenues.

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SUPPLEMENTARY INFORMATION

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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

DEBT SERVICE FUND

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

CAPITAL PROJECTS FUND

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

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Statement A-1

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

	Special Revenue (Statement B-1)	Bonds and Interest Debt Service	Capital Projects	Total (Exhibit 3)
<u>Assets</u>				
Cash and pooled investments	\$ 1,423,709	\$ 1,247,012	\$ 2,416,261	\$ 5,086,982
Petty cash and change funds	100	-	-	100
Undistributed cash in agency funds	20,907	22,455	91	43,453
Investments	204,541	-	839,639	1,044,180
Taxes receivable				
Current	15,252	18,056	-	33,308
Prior	2,605	5,612	101	8,318
Special assessments receivable				
Current	1,122	-	-	1,122
Prior	1,060	-	-	1,060
Noncurrent	113,443	-	-	113,443
Accounts receivable	66,631	-	-	66,631
Accrued interest receivable	1,466	-	7,091	8,557
Contracts receivable	16,716	-	-	16,716
Due from other funds	5,561	9,941	-	15,502
Due from other governments	480,030	-	-	480,030
Prepaid items	1,188	-	-	1,188
Total Assets	\$ 2,354,331	\$ 1,303,076	\$ 3,263,183	\$ 6,920,590
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 41,403	\$ -	\$ 8,389	\$ 49,792
Salaries payable	90,467	-	-	90,467
Due to other funds	28,860	410,000	-	438,860
Due to other governments	17,850	-	-	17,850
Accrued interest payable	7,703	-	-	7,703
Deferred revenue - unavailable	487,117	12,314	101	499,532
Advance from other funds	138,750	-	-	138,750
Total Liabilities	\$ 812,150	\$ 422,314	\$ 8,490	\$ 1,242,954
Fund Balances				
Reserved for library fund drive	\$ 158,273	\$ -	\$ -	\$ 158,273
Unreserved				
Designated for debt service	-	880,762	-	880,762
Designated for capital improvements	84,239	-	-	84,239
Undesignated	1,299,669	-	3,254,693	4,554,362
Total Fund Balances	\$ 1,542,181	\$ 880,762	\$ 3,254,693	\$ 5,677,636
Total Liabilities and Fund Balances	\$ 2,354,331	\$ 1,303,076	\$ 3,263,183	\$ 6,920,590

**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, 2005**

	Special Revenue (Statement B-2)	Bonds and Interest Debt Service	Capital Projects	Total (Exhibit 5)
Revenues				
Taxes	\$ 1,222,710	\$ 1,460,200	\$ 102	\$ 2,683,012
Special assessments	69,466	218,352	-	287,818
Licenses and permits	114,591	-	-	114,591
Intergovernmental	748,860	303,525	-	1,052,385
Charges for services	1,971,934	-	-	1,971,934
Fines and forfeits	30,391	-	-	30,391
Gifts and contributions	178,078	-	-	178,078
Investment earnings	3,590	-	36,561	40,151
Miscellaneous	39,290	-	8,708	47,998
Total Revenues	\$ 4,378,910	\$ 1,982,077	\$ 45,371	\$ 6,406,358
Expenditures				
Current				
Health	\$ 2,813,797	\$ -	\$ -	\$ 2,813,797
Culture and recreation	928,542	-	-	928,542
Conservation of natural resources	176,446	-	-	176,446
Capital outlay	-	-	63,620	63,620
Debt service				
Principal	-	1,200,000	-	1,200,000
Interest	-	420,750	-	420,750
Bond issuance costs	-	-	71,404	71,404
Administrative (fiscal) charges	-	56,418	-	56,418
Total Expenditures	\$ 3,918,785	\$ 1,677,168	\$ 135,024	\$ 5,730,977
Excess of Revenues Over (Under) Expenditures	\$ 460,125	\$ 304,909	\$ (89,653)	\$ 675,381
Other Financing Sources (Uses)				
Transfers in	\$ 766,193	\$ 74,640	\$ -	\$ 840,833
Transfers out	-	-	(2,568,796)	(2,568,796)
Bonds issued	-	-	3,450,000	3,450,000
Premium on bonds issued	-	-	50,800	50,800
Total Other Financing Sources (Uses)	\$ 766,193	\$ 74,640	\$ 932,004	\$ 1,772,837
Net Change in Fund Balance	\$ 1,226,318	\$ 379,549	\$ 842,351	\$ 2,448,218
Fund Balance - January 1	315,863	501,213	2,412,342	3,229,418
Fund Balance - December 31	\$ 1,542,181	\$ 880,762	\$ 3,254,693	\$ 5,677,636

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Statement B-1

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

	<u>Ditch</u>	<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	\$ 111,177	\$ 461,728	\$ 818,254	\$ 32,550	\$ 1,423,709
Petty cash and change funds	-	-	100	-	100
Undistributed cash in agency funds	2,253	8,496	10,158	-	20,907
Investments	-	84,239	120,302	-	204,541
Taxes receivable					
Current	-	6,721	8,531	-	15,252
Prior	-	2,605	-	-	2,605
Special assessments receivable					
Current	1,122	-	-	-	1,122
Prior	1,060	-	-	-	1,060
Noncurrent	113,443	-	-	-	113,443
Accounts receivable	-	-	66,631	-	66,631
Accrued interest receivable	-	96	1,370	-	1,466
Contracts receivable	-	-	-	16,716	16,716
Due from other funds	1,145	-	4,416	-	5,561
Due from other governments	4,954	-	475,076	-	480,030
Prepaid items	-	1,188	-	-	1,188
Total Assets	\$ 235,154	\$ 565,073	\$ 1,504,838	\$ 49,266	\$ 2,354,331
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 460	\$ 578	\$ 40,365	\$ -	\$ 41,403
Salaries payable	-	15,287	75,180	-	90,467
Due to other funds	9,110	261	3,335	16,154	28,860
Due to other governments	351	588	515	16,396	17,850
Accrued interest payable	7,703	-	-	-	7,703
Deferred revenue - unavailable	119,911	5,046	345,444	16,716	487,117
Advance from other funds	138,750	-	-	-	138,750
Total Liabilities	\$ 276,285	\$ 21,760	\$ 464,839	\$ 49,266	\$ 812,150
Fund Balances					
Reserved for library fund drive	\$ -	\$ 158,273	\$ -	\$ -	\$ 158,273
Unreserved					
Designated for capital improvements	-	84,239	-	-	84,239
Undesignated	(41,131)	300,801	1,039,999	-	1,299,669
Total Fund Balances	\$ (41,131)	\$ 543,313	\$ 1,039,999	\$ -	\$ 1,542,181
Total Liabilities and Fund Balances	\$ 235,154	\$ 565,073	\$ 1,504,838	\$ 49,266	\$ 2,354,331

**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, 2005**

	<u>Ditch</u>	<u>Library</u>	<u>Public Health Nurse</u>	<u>Forfeited Tax Sale</u>	<u>Total (Statement A-2)</u>
Revenues					
Taxes	\$ -	\$ 540,201	\$ 682,509	\$ -	\$ 1,222,710
Special assessments	69,466	-	-	-	69,466
Licenses and permits	-	-	114,591	-	114,591
Intergovernmental	-	115,299	633,561	-	748,860
Charges for services	76,717	3,431	1,891,786	-	1,971,934
Fines and forfeits	-	30,391	-	-	30,391
Gifts and contributions	-	98,969	79,109	-	178,078
Investment earnings	-	96	3,494	-	3,590
Miscellaneous	-	150	5,768	33,372	39,290
Total Revenues	\$ 146,183	\$ 788,537	\$ 3,410,818	\$ 33,372	\$ 4,378,910
Expenditures					
Current					
Health	\$ -	\$ -	\$ 2,813,797	\$ -	\$ 2,813,797
Culture and recreation	-	664,496	264,046	-	928,542
Conservation of natural resources	143,074	-	-	33,372	176,446
Total Expenditures	\$ 143,074	\$ 664,496	\$ 3,077,843	\$ 33,372	\$ 3,918,785
Excess of Revenues Over (Under) Expenditures	\$ 3,109	\$ 124,041	\$ 332,975	\$ -	\$ 460,125
Other Financing Sources (Uses)					
Transfers in	750,469	1,724	14,000	-	766,193
Net Change in Fund Balance	\$ 753,578	\$ 125,765	\$ 346,975	\$ -	\$ 1,226,318
Fund Balance - January 1	(794,709)	417,548	693,024	-	315,863
Fund Balance - December 31	\$ (41,131)	\$ 543,313	\$ 1,039,999	\$ -	\$ 1,542,181

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 4

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 599,041	\$ 599,041	\$ 540,201	\$ (58,840)
Intergovernmental	54,010	54,010	115,299	61,289
Charges for services	3,500	3,500	3,431	(69)
Fines and forfeits	26,000	26,000	30,391	4,391
Gifts and contributions	3,000	3,000	98,969	95,969
Interest on investments	-	-	96	96
Miscellaneous	-	-	150	150
Total Revenues	\$ 685,551	\$ 685,551	\$ 788,537	\$ 102,986
Expenditures				
Current				
Culture and recreation				
County library	685,551	685,551	664,496	21,055
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 124,041	\$ 124,041
Other Financing Sources (Uses)				
Transfers in	-	-	1,724	1,724
Net Change in Fund Balance	\$ -	\$ -	\$ 125,765	\$ 125,765
Fund Balance - January 1	417,548	417,548	417,548	-
Fund Balance - December 31	\$ 417,548	\$ 417,548	\$ 543,313	\$ 125,765

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
PUBLIC HEALTH NURSE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 760,434	\$ 760,434	\$ 682,509	\$ (77,925)
Licenses and permits	115,000	115,000	114,591	(409)
Intergovernmental	464,533	464,533	633,561	169,028
Charges for services	1,706,679	1,706,679	1,891,786	185,107
Gifts and contributions	26,500	26,500	79,109	52,609
Interest on investments	1,500	1,500	3,494	1,994
Miscellaneous	9,867	9,867	5,768	(4,099)
Total Revenues	\$ 3,084,513	\$ 3,084,513	\$ 3,410,818	\$ 326,305
Expenditures				
Current				
Health				
Nursing service	\$ 2,813,695	\$ 2,813,695	\$ 2,813,797	\$ (102)
Culture and recreation				
Senior citizens	270,818	270,818	264,046	6,772
Total Expenditures	\$ 3,084,513	\$ 3,084,513	\$ 3,077,843	\$ 6,670
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 332,975	\$ 332,975
Other Financing Sources (Uses)				
Transfers in	-	-	14,000	14,000
Net Change in Fund Balance	\$ -	\$ -	\$ 346,975	\$ 346,975
Fund Balance - January 1	693,024	693,024	693,024	-
Fund Balance - December 31	\$ 693,024	\$ 693,024	\$ 1,039,999	\$ 346,975

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
BONDS AND INTEREST DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,609,643	\$ 1,609,643	\$ 1,460,200	\$ (149,443)
Special assessments	-	-	218,352	218,352
Intergovernmental	141,523	141,523	303,525	162,002
Total Revenues	\$ 1,751,166	\$ 1,751,166	\$ 1,982,077	\$ 230,911
Expenditures				
Debt service				
Principal	\$ 1,751,166	\$ 1,245,000	\$ 1,200,000	\$ 45,000
Interest	-	416,790	420,750	(3,960)
Administrative (fiscal) charges	-	89,376	56,418	32,958
Total Expenditures	\$ 1,751,166	\$ 1,751,166	\$ 1,677,168	\$ 73,998
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 304,909	\$ 304,909
Other Financing Sources (Uses)				
Transfers in	-	-	74,640	74,640
Net Change in Fund Balance	\$ -	\$ -	\$ 379,549	\$ 379,549
Fund Balance - January 1	501,213	501,213	501,213	-
Fund Balance - December 31	\$ 501,213	\$ 501,213	\$ 880,762	\$ 379,549

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

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

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

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

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

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

The West Central Minnesota Drug Task Force Fund accounts for the 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, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FLEXIBLE SPENDING PLANS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 9,292	\$ 306,205	\$ 303,169	\$ 12,328
<u>Liabilities</u>				
Accounts payable	\$ 9,292	\$ 306,205	\$ 303,169	\$ 12,328
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 180,365	\$ 2,163,408	\$ 2,169,217	\$ 174,556
Accounts receivable	11,168	16,422	11,168	16,422
Total Assets	\$ 191,533	\$ 2,179,830	\$ 2,180,385	\$ 190,978
<u>Liabilities</u>				
Due to other governments	\$ 191,533	\$ 2,179,830	\$ 2,180,385	\$ 190,978
 <u>OTHER COLLECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 13,210	\$ 569,565	\$ 554,231	\$ 28,544
<u>Liabilities</u>				
Due to other governments	\$ 13,210	\$ 569,565	\$ 554,231	\$ 28,544

**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, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MENTAL HEALTH COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 163,107	\$ 475,864	\$ 401,591	\$ 237,380
<u>Liabilities</u>				
Due to other governments	\$ 163,107	\$ 475,864	\$ 401,591	\$ 237,380
 <u>FLOOD CONTROL BOARD</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 43,398	\$ 1,483	\$ 8,871	\$ 36,010
<u>Liabilities</u>				
Due to other governments	\$ 43,398	\$ 1,483	\$ 8,871	\$ 36,010
 <u>WEST CENTRAL MINNESOTA DRUG TASK FORCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 160,706	\$ 131,329	\$ 111,998	\$ 180,037
<u>Liabilities</u>				
Due to other governments	\$ 160,706	\$ 131,329	\$ 111,998	\$ 180,037

**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, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>PRIME WEST</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,300,430	\$ 1,300,430	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,300,430	\$ 1,300,430	\$ -
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 239,160	\$ 37,982,255	\$ 37,854,530	\$ 366,885
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 2,294	\$ -	\$ 2,294
Due to other governments	239,160	37,982,473	37,857,042	364,591
Total Liabilities	\$ 239,160	\$ 37,984,767	\$ 37,857,042	\$ 366,885
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 809,238	\$ 42,930,539	\$ 42,704,037	\$ 1,035,740
Accounts receivable	11,168	16,422	11,168	16,422
Total Assets	\$ 820,406	\$ 42,946,961	\$ 42,715,205	\$ 1,052,162
<u>Liabilities</u>				
Accounts payable	\$ 9,292	\$ 308,499	\$ 303,169	\$ 14,622
Due to other governments	811,114	42,640,974	42,414,548	1,037,540
Total Liabilities	\$ 820,406	\$ 42,949,473	\$ 42,717,717	\$ 1,052,162

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OTHER SCHEDULES

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 7

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2005**

	<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	\$ 47,270
Interest bearing checking	2	N/A	N/A	10,549,741
Non-interest checking	3	N/A	N/A	578,250
Money market savings	1	Variable	Continuous	17,840
Certificates of deposit	20	2.25 to 4.60	January 8, 2006 to November 17, 2007	2,372,865
Money market savings with brokers	12	Variable	Continuous	1,881,364
Certificates of deposit with brokers	14	3.00 to 5.40	January 13, 2006 to July 9, 2013	1,348,365
Federal Home Loan Bank	21	2.30 to 5.00	February 15, 2006 to June 26, 2013	9,076,336
Federal Farm Credit Bank	3	1.80 to 3.40	March 17, 2006 to September 29, 2008	1,675,561
Federal Home Loan Mortgage Corporation	4	2.15 to 3.00	April 28, 2006 to December 15, 2006	3,467,096
Federal National Mortgage Association	4	2.50 to 4.50	May 12, 2006 to December 15, 2009	3,743,357
Government National Mortgage Association	2	9.00	March 15, 2009 to September 15, 2016	4,968
Repurchase agreements	2	1.23 to 2.50	Continuous	5,575,792
U.S. Treasury Notes	3	2.00	May 15, 2006	2,481,632
Total Deposits and Investments				<u>\$ 42,820,437</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Cash</u>	<u>Undistributed Cash in Agency Fund</u>	<u>Special Current</u>
Joint Ditches			
2	\$ 52,333	\$ -	\$ -
2 repair and redetermination	45	-	-
3	9,413	12	-
4	12,973	73	-
County Ditches			
1	324	46	34
3	667	498	520
4 and 16	437	1,014	510
5	695	-	-
6	607	184	58
8	399	55	-
9	4,890	50	-
10	1,554	-	-
11	873	-	-
13	2,314	-	-
14	567	298	-
17	1,704	-	-
21	4,558	-	-
22	7,102	-	-
23	4,623	23	-
98	5,099	-	-
Total	\$ 111,177	\$ 2,253	\$ 1,122

Schedule 8

Assets						
Assessments Receivable		Due from Other Funds		Due from Other Governments		Total
Prior	Deferred					
\$ -	\$ 61,349	\$ -	\$ -	\$ -	\$ -	\$ 113,682
-	-	-	-	-	-	45
142	-	-	-	-	-	9,567
202	8,902	45	-	36	-	22,231
1	1,032	-	-	42	-	1,479
-	17,177	227	-	2,759	-	21,848
-	8,117	445	-	412	-	10,935
-	731	-	-	132	-	1,558
26	1,884	-	-	106	-	2,865
-	825	-	-	981	-	2,260
689	-	-	-	-	-	5,629
-	3,481	-	-	24	-	5,059
-	2,761	-	-	9	-	3,643
-	-	-	-	-	-	2,314
-	1,038	-	-	-	-	1,903
-	6,146	428	-	453	-	8,731
-	-	-	-	-	-	4,558
-	-	-	-	-	-	7,102
-	-	-	-	-	-	4,646
-	-	-	-	-	-	5,099
\$ 1,060	\$ 113,443	\$ 1,145	\$ 4,954	\$ 235,154	\$	235,154

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Accounts Payable	Due to Other Funds	Due to Other Governments
Joint Ditches			
2	\$ -	\$ 1,373	\$ -
2 repair and redetermination	105	3,094	35
3	268	252	18
4	19	328	18
County Ditches	-		
1	4	58	21
3	8	236	21
4 and 16	6	365	21
5	2	228	21
6	2	7	21
8	2	28	-
9	14	197	21
10	2	242	21
11	2	8	18
13	2	191	21
14	2	53	18
17	2	1,287	17
21	2	6	21
22	6	773	-
23	4	207	21
98	8	177	17
Total	\$ 460	\$ 9,110	\$ 351

Schedule 8
(Continued)

Liabilities and Fund Balance					
Liabilities				Fund	Total
Accrued	Deferred	Advance	Total	Balance	Liabilities
Interest	Revenue	from Other		Unreserved	and Fund
Payable		Funds		Undesignated	Balance
\$ -	\$ 61,349	\$ -	\$ 62,722	\$ 50,960	\$ 113,682
7,703	-	-	10,937	(10,892)	45
-	142	-	680	8,887	9,567
-	9,140	-	9,505	12,726	22,231
-	-	-	-	-	-
-	1,093	750	1,926	(447)	1,479
-	20,456	114,000	134,721	(112,873)	21,848
-	8,528	3,000	11,920	(985)	10,935
-	864	500	1,615	(57)	1,558
-	2,027	4,000	6,057	(3,192)	2,865
-	1,806	500	2,336	(76)	2,260
-	593	-	825	4,804	5,629
-	3,506	-	3,771	1,288	5,059
-	2,769	2,000	4,797	(1,154)	3,643
-	-	-	214	2,100	2,314
-	1,038	1,000	2,111	(208)	1,903
-	6,600	13,000	20,906	(12,175)	8,731
-	-	-	29	4,529	4,558
-	-	-	779	6,323	7,102
-	-	-	232	4,414	4,646
-	-	-	202	4,897	5,099
\$ 7,703	\$ 119,911	\$ 138,750	\$ 276,285	\$ (41,131)	\$ 235,154

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 9

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

Shared Revenue

State

Highway users tax	\$	3,805,650
PERA rate reimbursement		47,124
Disparity reduction aid		5,378
Police aid		113,134
Program aid		1,396,225
E-911		85,821
Market value credit		1,571,681
Mobile home market value credit		9,905

Total Shared Revenue **\$ 7,034,918**

Reimbursement for Services

Minnesota Department of Human Services **\$ 1,818,575**

Payments

Local

Wellness grant	\$	5,000
Teen court		1,995
Local contributions		997
Payments in lieu of taxes		105,801

Total Payments **\$ 113,793**

Grants

State

Minnesota Department of		
Corrections	\$	139,418
Public Safety		350
Transportation		41,500
Health		185,251
Natural Resources		150,838
Human Services		1,300,981
Veterans Affairs		4,200
Water and Soil Resources Board		94,750
Peace Officer Standards and Training Board		9,165
Other		7,208

Total State **\$ 1,933,661**

Federal

Department of		
Agriculture	\$	106,468
Justice		6,432
Transportation		542,276
Environmental Protection Agency		14,177
Health and Human Services		1,290,921
Homeland Security		14,569

Total Federal **\$ 1,974,843**

Total State and Federal Grants **\$ 3,908,504**

Total Intergovernmental Revenue **\$ 12,875,790**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-4 **Segregation of Duties**

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

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

Client's Response:

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

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-6 Ditch Special Revenue Fund Deficit

Ten of the 20 ditch systems had deficit fund balances as of December 31, 2005, totaling \$142,059, the largest being \$112,873. These ten ditch deficits combine with the remaining ditch systems to leave the Ditch Special Revenue Fund with a total fund balance deficit of \$41,131. 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:

The total deficit of \$142,509 is down from the previous year's deficit of \$859,371. We anticipate this trend to continue and eliminate the deficit entirely over the next few years.

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, like what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other

postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

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

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

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

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

OTHER REQUIRED REPORTS

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STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Douglas County

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Douglas County, Minnesota, as of and for the year ended December 31, 2005, and have issued our report thereon dated July 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the financial statements of the Douglas County Hospital Enterprise Fund and the Housing and Redevelopment Authority of Douglas County, a discretely presented component unit. 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 a 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 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: July 31, 2006

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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 its major federal program for the year ended December 31, 2005. Douglas County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

Douglas County's financial statements include the operations of the Housing and Redevelopment Authority of Douglas County (HRA), a discretely presented component unit, which expended \$952,520 in federal awards during the year ended December 31, 2005, 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 its major federal program for the year ended December 31, 2005.

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

This report is intended solely for the information and use of the Board of County Commissioners and 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: July 31, 2006

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**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 11

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

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	\$ 127,722
Passed Through Minnesota Department of Human Services State Administrative Matching Grant for Food Stamp Program	10.561	6,847
Total U.S. Department of Agriculture		\$ 134,569
U.S. Department of Justice		
Direct Bulletproof Vest Partnership Program	16.607	\$ 2,362
Passed Through Minnesota Department of Public Safety Enforcing Underage Drinking Laws Program	16.727	4,070
Total U.S. Department of Justice		\$ 6,432
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 217,600
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	19,578
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	6,200
Total U.S. Department of Transportation		\$ 243,378
Environmental Protection Agency		
Passed Through Minnesota Department of Health State Indoor Radon Grant	66.032	\$ 9,950
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 Programs for the Aging - Title IV and II Discretionary Projects	93.048	4,155
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations	93.779	20,003
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	19,451
Temporary Assistance for Needy Families (TANF)	93.558	135,793
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	676,669

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Schedule 11
(Continued)

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

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)		
Child Welfare Services - State Grants	93.645	5,453
Foster Care Title IV-E	93.658	84,058
Social Services Block Grant Title XX	93.667	198,579
Chafee Foster Care Independent Living	93.674	15,094
Block Grant - Community Mental Health Services	93.958	9,730
Passed Through Minnesota Department of Health		
Immunization Grants	93.268	1,600
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	54,961
Temporary Assistance for Needy Families (TANF)	93.558	22,176
Maternal and Child Health Services Block Grant	93.994	40,666
Total U.S. Department of Health and Human Services		\$ 1,296,388
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
State Domestic Preparedness Equipment Support Program	97.004	\$ 1,562
Homeland Security Grant Program	97.067	8,235
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	4,772
Total U.S. Department of Homeland Security		\$ 14,569
Total Federal Awards		\$ 1,705,286

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Douglas County. The County's reporting entity is defined in Note 1 to the financial statements. The Housing and Redevelopment Authority of Douglas County component unit expended \$952,520 in federal awards not included in this schedule. Those 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 2005.