

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

MILLE LACS COUNTY
MILACA, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: www.auditor.state.mn.us.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

For the Year Ended December 31, 2004



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

This page was left blank intentionally.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
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	13
Statement of Governmental Activities	Exhibit 2	14
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	15
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets-- Governmental Activities	Exhibit 4	19
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	20
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	22
Fiduciary Funds		
Statement of Fiduciary Net Assets	Exhibit 7	23
Statement of Changes in Fiduciary Net Assets-- Private-Purpose Trust Fund	Exhibit 8	24
Notes to the Financial Statements		25
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	48
Road and Bridge Special Revenue Fund	Schedule 2	50
Welfare Special Revenue Fund	Schedule 3	51
Notes to the Required Supplementary Information		52

**MILLE LACS COUNTY
MILACA, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Financial Section (Continued)		
Supplementary Information		
Combining and Individual Fund Financial Statements		
Nonmajor Governmental Funds		
Special Revenue Funds		53
Combining Balance Sheet - Nonmajor Governmental Funds	Statement 1	54
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	Statement 2	55
Budgetary Comparison Schedules		
Community Health Services Special Revenue Fund	Schedule 4	56
Housing and Redevelopment Authority Special Revenue Fund	Schedule 5	57
Fiduciary Funds		
Agency Funds		58
Combining Statement of Changes in Assets and Liabilities	Statement 3	59
Other Schedules		
Schedule of Deposits and Investments	Schedule 6	61
Tax Capacity, Tax Capacity Rates, Levies, and Percentages of Collections	Schedule 7	62
Balance Sheet - by Ditch - Ditch Special Revenue Fund	Schedule 8	63
Schedule of Intergovernmental Revenue	Schedule 9	64
Management and Compliance Section		
Schedule of Findings and Questioned Costs	Schedule 10	65
Other Required Reports		
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		71
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		73
Schedule of Expenditures of Federal Awards	Schedule 11	75

This page was left blank intentionally.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**ORGANIZATION
2004**

Office	Name	Term	
		From	To
Commissioners			
1st District	Richard Satterstrom	January 2003	January 2005
2nd District	Roger Neske*	January 2003	January 2007
3rd District	Phil Peterson	January 2003	January 2005
4th District	Robert Hoefert	January 2003	January 2007
5th District	Frank Courteau	January 2003	January 2005
Officers			
Elected			
Attorney	Janice Kolb	January 2003	January 2007
Auditor/Treasurer	Philip Thompson	January 2003	January 2007
County Recorder	Sharon Kleingartner	January 2003	January 2007
Sheriff	Brent Lindgren	January 2003	January 2007
Appointed			
Assessor	Patricia Stotz	December 2000	December 2004
Coroner	Janice Amatuzio	January 2003	January 2007
County Engineer	Richard Larson	June 2001	May 2005
Probation Officer	Warren Liepitz	Indefinite	Indefinite
Surveyor	Dennis Pedersen	January 2003	December 2007
Veterans' Service Officer	Ken Olson	December 2000	December 2004
Emergency Management			
Director	Mike Smith	Indefinite	Indefinite
Court Administrator	Ronald Tvedt	Indefinite	Indefinite
Zoning Administrator	Matt Huddleston	Indefinite	Indefinite
County Coordinator	Bobbie Danielson	Indefinite	Indefinite
Welfare			
Board			
Chair	Phil Peterson	July 2004	January 2005
Vice Chair	Richard Satterstrom	July 2004	January 2005
Secretary	La Von Ziegler	July 2004	July 2005
Member	Roger Neske	July 2004	July 2005
Member	Sarah Herrick	July 2004	July 2005
Member	Robert Hoefert	July 2004	January 2005
Member	Frank Courteau	July 2004	January 2005
Director	Leo Vos	Indefinite	Indefinite

*Board Chair

This page was left blank intentionally.

This page was left blank intentionally.



PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Mille Lacs County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mille Lacs County, Minnesota, as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mille Lacs County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mille Lacs County as of December 31, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 Mille Lacs County's basic financial statements. The supplementary information and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2005, on our consideration of Mille Lacs County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 20, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

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

Mille Lacs County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$51,564,305, of which Mille Lacs County has invested \$36,622,526 in capital assets, net of related debt, and \$716,200 is restricted to specific purposes/uses by the County.
- The net cost of Mille Lacs County's governmental activities for the year ended December 31, 2004, was \$9,672,503; the net cost was funded by general revenues and other items totaling \$12,406,155.
- At the close of 2004, Mille Lacs County's governmental funds reported combined ending fund balances of \$13,540,996, an increase of \$1,442,869 from the previous year-end balance. At the end of the year, Mille Lacs County's unreserved fund balance totaled \$12,670,108, which is available for spending at the County Board's discretion.

OVERVIEW OF THE FINANCIAL STATEMENTS

Mille Lacs 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.

Management’s Discussion and Analysis (Required Supplementary Information)

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

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

Mille Lacs County presents two government-wide financial statements. 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 Mille Lacs County’s finances. The County’s fund financial statements follow these two government-wide financial statements. For governmental activities, these statements tell how Mille Lacs County financed these services in the short term as well as what remains for future spending. Fund financial statements also report the County’s operations in more detail than the government-wide statements by providing information about the County’s most significant/major funds. The remaining 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 Mille Lacs County as a whole and about its activities in a way that helps the reader determine whether Mille Lacs County’s financial condition has improved or declined as a result of the current year’s activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

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

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

Fund Financial Statements

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

- Governmental funds--Most of Mille Lacs County’s basic services are reported in governmental funds, which focus on how money flows 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 Mille Lacs County. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.

Reporting the County’s Fiduciary Responsibilities

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

THE COUNTY AS A WHOLE

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

Table 1
Net Assets

	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 18,005,628	\$ 16,897,223
Capital assets	<u>42,362,526</u>	<u>41,140,001</u>
Total Assets	<u>\$ 60,368,154</u>	<u>\$ 58,037,224</u>
Long-term liabilities outstanding	\$ 7,526,111	\$ 8,067,281
Other liabilities	<u>1,277,738</u>	<u>1,139,290</u>
Total Liabilities	<u>\$ 8,803,849</u>	<u>\$ 9,206,571</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 36,622,526	\$ 35,394,559
Restricted	716,200	787,628
Unrestricted	<u>14,225,579</u>	<u>12,648,466</u>
Total Net Assets	<u>\$ 51,564,305</u>	<u>\$ 48,830,653</u>

Mille Lacs County's total net assets for the year ended December 31, 2004, was \$51,564,305. The governmental activities unrestricted net assets, totaling \$14,225,579, are available to finance the day-to-day operations of the governmental activities of Mille Lacs County.

Table 2
Changes in Net Assets

	<u>2004</u>	<u>2003</u>
Revenues		
Program Revenues		
Fees, charges, fines, and other	\$ 2,696,229	\$ 2,320,538
Operating grants and contributions	8,143,484	11,528,420
Capital grants and contributions	767,805	1,419,834
General Revenues		
Property taxes	9,650,516	8,777,845
Other	<u>2,755,639</u>	<u>2,808,528</u>
Total Revenues	<u>\$ 24,013,673</u>	<u>\$ 26,855,165</u>

	<u>2004</u>	<u>2003</u>
Expenses		
General government	\$ 4,061,978	\$ 3,797,445
Public safety	4,580,014	4,443,729
Highways and streets	4,187,581	2,748,260
Sanitation	96,139	93,469
Human services	7,047,167	7,286,855
Health	614,313	690,084
Culture and recreation	172,001	176,707
Conservation of natural resources	160,984	193,575
Economic development	77,863	78,026
Interest	<u>281,981</u>	<u>283,459</u>
Total Expenses	<u>\$ 21,280,021</u>	<u>\$ 19,791,609</u>
Increase in Net Assets	\$ 2,733,652	\$ 7,063,556
Net Assets, January 1	<u>48,830,653</u>	<u>41,767,097</u>
Net Assets, December 31	<u>\$ 51,564,305</u>	<u>\$ 48,830,653</u>

Governmental Activities

Revenues for Mille Lacs County's governmental activities for the year ended December 31, 2004, were \$24,013,673. The County's cost for all governmental activities for the year ended December 31, 2004, was \$21,280,021. The net assets for the County's governmental activities increased by \$2,733,652 in 2004.

As shown in the Statement of Activities, the amount that Mille Lacs County taxpayers ultimately financed for these governmental activities through local property taxation was \$9,650,516, because \$11,607,518 of the costs were paid by those who directly benefited from the programs, and \$2,273,572 was paid by other governments and organizations that subsidized certain programs with grants and contributions. Mille Lacs County paid for the remaining "public benefit" portion of governmental activities with \$482,067 in other revenues, such as investment income, mortgage registry tax, and state deed tax.

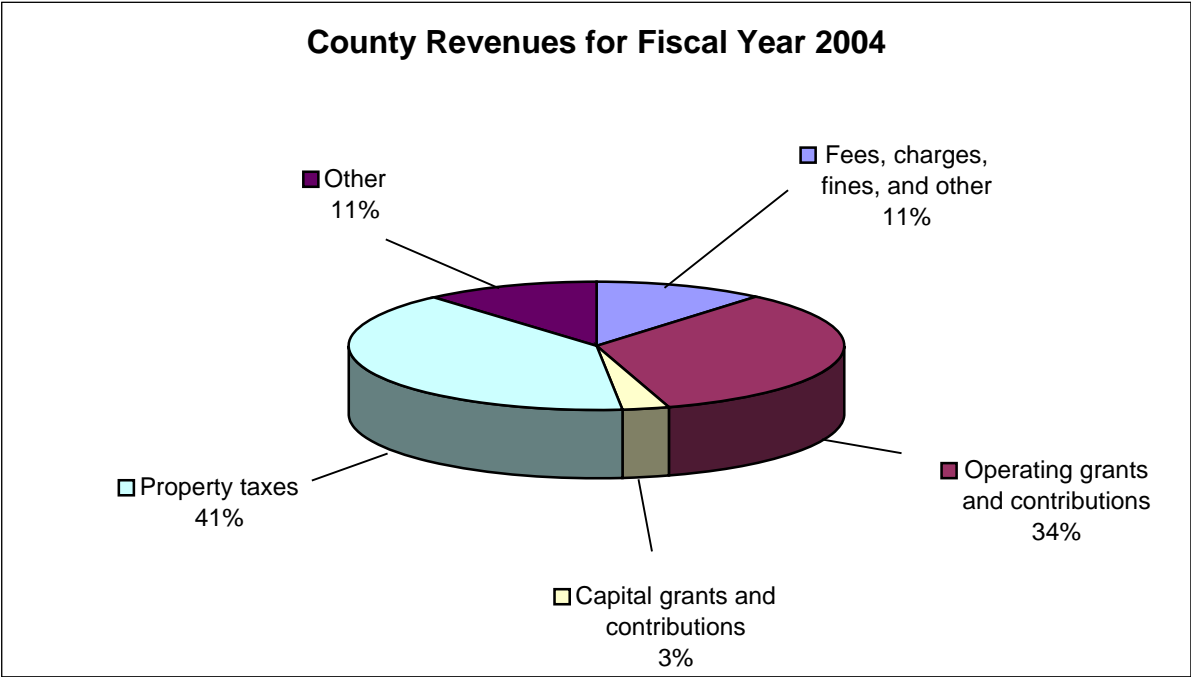
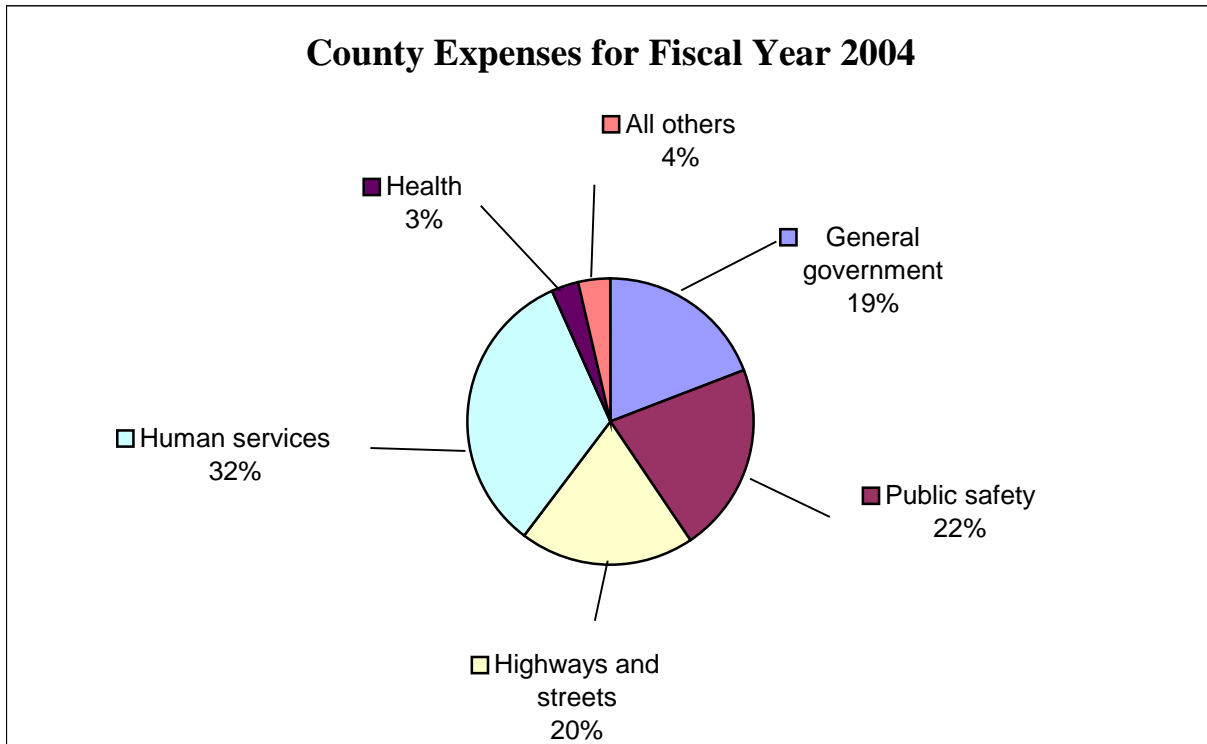


Table 3 presents the cost of each of Mille Lacs County’s five largest program functions as well as each function’s net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden placed on Mille Lacs County’s taxpayers by each of these functions.

**Table 3
Governmental Activities**

	Total Cost of Services 2004	Net Cost of Services 2004
	<hr/>	<hr/>
Program Expenses		
General government	\$ 4,061,978	\$ 2,781,411
Public safety	4,580,014	3,552,117
Highways and streets	4,187,581	213,439
Human services	7,047,167	2,504,993
Health	614,313	223,374
All others	788,968	397,169
	<hr/>	<hr/>
Total Program Expenses	<u>\$ 21,280,021</u>	<u>\$ 9,672,503</u>



THE COUNTY'S FUNDS

As Mille Lacs County completed the year, its governmental funds as presented in the balance sheet reported a combined fund balance of \$13,540,996.

General Fund Budgetary Highlights

The Mille Lacs County Board of Commissioners, over the course of a budget year, may amend/revise the County's General Fund budget. During 2004, the County Board of Commissioners made changes to the budget as originally adopted on December 16, 2003. These budget amendments/revisions fall into one of three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts.

In the General Fund, the actual revenues were above the expected revenues by \$1,013,628, and actual expenditures were \$602,891 less than budgeted expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, Mille Lacs County had \$42,362,526 invested in a broad range of capital assets, net of depreciation. This investment in capital assets includes land, land improvements, buildings, highways and streets, and equipment (see Table 4 below).

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

	2004	2003
Land	\$ 1,155,547	\$ 1,155,547
Land improvements	293,828	314,170
Building	5,745,958	5,944,389
Machinery and equipment	1,152,878	882,877
Infrastructure	34,014,315	32,843,018
Total	<u>\$ 42,362,526</u>	<u>\$ 41,140,001</u>

Debt Administration

At December 31, 2004, Mille Lacs County had \$5,740,000 in bonds and notes outstanding, compared with \$6,120,000 as of December 31, 2003--a decrease of 6.2 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

Bonds and Notes Payable	Governmental Activities		Percentage Change
	2004	2003	
1997 G.O. Law Enforcement Center Bonds	\$ 4,055,000	\$ 4,235,000	
1998 HRA Lease Revenue Bonds	1,440,000	1,500,000	
2003 G.O. Capital Notes	245,000	385,000	
Total	<u>\$ 5,740,000</u>	<u>\$ 6,120,000</u>	<u>(6.2%)</u>

Other long-term obligations include a liability to the East Central Solid Waste Commission and compensated absences. Mille Lacs County's notes to the financial statements provide detailed information about the County's long-term liabilities.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2005 budget and tax rates.

- For the past three years, the State of Minnesota has projected a budget deficit. How the State of Minnesota resolves this deficit could have a significant impact on future Mille Lacs 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.
- Mille Lacs County's annual unemployment rate for 2004 was 7.0 percent. This is significantly above the statewide rate of 4.7 percent and the national rate of 5.6 percent.
- Land development and regulation issues.
- Reviewing revenue sources and considering cost effective and efficient means for the delivery of Mille Lacs County programs and services will influence the development of future budgets.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

Mille Lacs County's financial report provides citizens, taxpayers, customers, investors, and creditors with a general overview of Mille Lacs County's finances and shows the County's accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact Philip Thompson, Mille Lacs County Auditor/Treasurer (320-983-8310), Mille Lacs County Courthouse, 635 - 2nd Street S.E., Milaca, Minnesota 56353.

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page was left blank intentionally.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 1

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

Assets

Cash and pooled investments	\$	13,275,758
Petty cash and change funds		1,450
Departmental cash		15,520
Taxes receivable		
Prior		475,488
Special assessments receivable		
Prior		16,939
Accounts receivable		57,227
Accrued interest receivable		4,415
Due from other governments		3,856,567
Inventories		241,751
Advances to other governments		53,552
Deferred charges		6,961
Capital assets		
Non-depreciable		1,155,547
Depreciable - net of accumulated depreciation		41,206,979
		41,206,979
Total Assets	\$	60,368,154

Liabilities

Cash overdraft	\$	8,713
Accounts payable		429,356
Salaries payable		300,084
Contracts payable		252,204
Due to other governments		167,299
Matured interest payable		113,301
Unearned revenue		6,781
Long-term liabilities		
Due within one year		731,436
Due in more than one year		6,794,675
		6,794,675
Total Liabilities	\$	8,803,849

Net Assets

Invested in capital assets - net of related debt	\$	36,622,526
Restricted for		
General government		63,999
Public safety		93,951
Highways and streets		407,218
Debt service		151,032
Unrestricted		14,225,579
		14,225,579
Total Net Assets	\$	51,564,305

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 2

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

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	
Functions/Programs					
General government	\$ 4,061,978	\$ 1,113,634	\$ 153,655	\$ 13,278	\$ (2,781,411)
Public safety	4,580,014	657,214	370,683	-	(3,552,117)
Highways and streets	4,187,581	93,217	3,376,857	504,068	(213,439)
Sanitation	96,139	5,580	-	-	(90,559)
Human services	7,047,167	670,704	3,871,470	-	(2,504,993)
Health	614,313	148,500	242,439	-	(223,374)
Culture and recreation	172,001	-	62,227	-	(109,774)
Conservation of natural resources	160,984	7,380	66,153	250,459	163,008
Economic development	77,863	-	-	-	(77,863)
Interest	281,981	-	-	-	(281,981)
Total	\$ 21,280,021	\$ 2,696,229	\$ 8,143,484	\$ 767,805	\$ (9,672,503)
General Revenues					
Property taxes					\$ 9,650,516
Mortgage registry and state deed tax					72,783
Payments in lieu of tax					80,684
Grants and contributions not restricted to specific programs					2,273,572
Investment income					158,551
Miscellaneous					133,807
Gain on disposal of general capital assets					36,242
Total general revenues					\$ 12,406,155
Change in net assets					\$ 2,733,652
Net Assets - January 1					48,830,653
Net Assets - December 31					\$ 51,564,305

FUND FINANCIAL STATEMENTS

**MILLE LACS COUNTY
MILACA, MINNESOTA**

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

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 7,342,170	\$ 872,653
Petty cash and change funds	1,400	-
Departmental cash	15,520	-
Taxes receivable		
Prior	294,070	34,778
Special assessments receivable		
Prior	16,939	-
Accounts receivable	55,440	1,787
Accrued interest receivable	4,415	-
Due from other funds	11,706	-
Due from other governments	221,922	3,178,465
Inventories	-	241,751
Advances to other funds	10,417	-
Advances to other governments	-	-
	-	-
Total Assets	\$ 7,973,999	\$ 4,329,434

EXHIBIT 3

<u>Welfare</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 4,967,582	\$ -	\$ 51,641	\$ 41,712	\$ 13,275,758
50	-	-	-	1,450
-	-	-	-	15,520
121,633	25,007	-	-	475,488
-	-	-	-	16,939
-	-	-	-	57,227
-	-	-	-	4,415
-	154,115	-	-	165,821
446,302	-	-	9,878	3,856,567
-	-	-	-	241,751
-	-	-	-	10,417
53,552	-	-	-	53,552
<u>\$ 5,589,119</u>	<u>\$ 179,122</u>	<u>\$ 51,641</u>	<u>\$ 51,590</u>	<u>\$ 18,174,905</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

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

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Cash overdraft	\$ -	\$ -
Accounts payable	150,044	39,374
Salaries payable	181,327	34,004
Contracts payable	-	252,204
Due to other funds	-	154,640
Due to other governments	136,966	7,556
Deferred revenue - unavailable	235,054	2,913,289
Deferred revenue - unearned	-	6,781
Advances from other funds	-	-
Total Liabilities	\$ 703,391	\$ 3,407,848
Fund Balances		
Reserved for		
Encumbrances	\$ -	\$ 407,218
Inventories	-	241,751
Advances to other funds	10,417	-
Advances to other governments	-	-
Law library	32,696	-
Recorder's equipment	5,488	-
Enhanced 911	50,327	-
DARE	26,976	-
Drug and alcohol contingency	7,849	-
DWI forfeiture	2,839	-
Drug forfeiture	5,960	-
Attorney - forfeited property	25,815	-
Unreserved		
Designated for debt service	-	-
Designated for working capital cash flows	3,663,053	272,617
Designated for petty cash funds	1,400	-
Designated for workers' compensation	84,039	-
Undesignated	3,353,749	-
Unreserved, reported in nonmajor special revenue funds	-	-
Total Fund Balances	\$ 7,270,608	\$ 921,586
Total Liabilities and Fund Balances	\$ 7,973,999	\$ 4,329,434

EXHIBIT 3
(Continued)

<u>Welfare</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 8,713	\$ -	\$ -	\$ 8,713
239,016	-	-	922	429,356
80,509	-	-	4,244	300,084
-	-	-	-	252,204
11,181	-	-	-	165,821
22,777	-	-	-	167,299
125,514	19,377	-	-	3,293,234
-	-	-	-	6,781
-	-	-	10,417	10,417
\$ 478,997	\$ 28,090	\$ -	\$ 15,583	\$ 4,633,909
\$ -	\$ -	\$ -	\$ -	\$ 407,218
-	-	-	-	241,751
-	-	-	-	10,417
53,552	-	-	-	53,552
-	-	-	-	32,696
-	-	-	-	5,488
-	-	-	-	50,327
-	-	-	-	26,976
-	-	-	-	7,849
-	-	-	-	2,839
-	-	-	-	5,960
-	-	-	-	25,815
-	151,032	-	-	151,032
1,338,051	-	-	-	5,273,721
50	-	-	-	1,450
-	-	-	-	84,039
3,718,469	-	51,641	-	7,123,859
-	-	-	36,007	36,007
\$ 5,110,122	\$ 151,032	\$ 51,641	\$ 36,007	\$ 13,540,996
\$ 5,589,119	\$ 179,122	\$ 51,641	\$ 51,590	\$ 18,174,905

This page was left blank intentionally.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)	\$	13,540,996
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.		42,362,526
Deferred charges are not available to pay current expenditures and, therefore, are not reported in the governmental funds.		6,961
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.		3,293,234
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (4,055,000)	
Lease revenue bonds	(1,440,000)	
General obligation capital notes	(245,000)	
East Central Solid Waste Commission liability	(747,270)	
Compensated absences	(1,038,841)	(7,526,111)
		<hr/>
Matured interest payable is not due and payable in the current period and, therefore, is not reported in the governmental funds.		(113,301)
		<hr/>
Net assets of governmental activities (Exhibit 1)	\$	<u>51,564,305</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

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

	General	Road and Bridge
Revenues		
Taxes	\$ 6,093,813	\$ 612,847
Special assessments	251,698	-
Licenses and permits	546,905	18,555
Intergovernmental	2,402,064	4,510,534
Charges for services	1,196,186	46,619
Fines and forfeits	90,538	-
Gifts and contributions	36,566	-
Investment income	158,551	-
Miscellaneous	292,998	28,043
	\$ 11,069,319	\$ 5,216,598
Expenditures		
Current		
General government	\$ 3,947,756	\$ -
Public safety	4,563,720	-
Highways and streets	-	5,416,053
Sanitation	259,175	-
Human services	-	-
Health	479,818	-
Conservation of natural resources	154,132	-
Economic development	5,550	-
Intergovernmental		
Highways and streets	-	159,143
Culture and recreation	172,001	-
Debt service		
Principal retirement	-	-
Interest	-	-
	\$ 9,582,152	\$ 5,575,196
Excess of Revenues Over (Under) Expenditures	\$ 1,487,167	\$ (358,598)
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ 375,253
Transfers out	-	-
Proceeds from sale of capital assets	9,712	26,530
	\$ 9,712	\$ 401,783
Net Change in Fund Balances	\$ 1,496,879	\$ 43,185
Fund Balances - January 1	5,773,729	862,951
Increase (decrease) in reserved for inventories	-	15,450
	\$ 7,270,608	\$ 921,586
Fund Balances - December 31	\$ 7,270,608	\$ 921,586

EXHIBIT 5

Welfare	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 2,318,221	\$ 619,611	\$ -	\$ 72,313	\$ 9,716,805
-	-	-	7,380	259,078
-	-	-	-	565,460
4,336,336	89,127	-	119,945	11,458,006
55,888	-	-	-	1,298,693
-	-	-	-	90,538
-	-	-	-	36,566
-	-	-	-	158,551
614,816	-	-	2,108	937,965
\$ 7,325,261	\$ 708,738	\$ -	\$ 201,746	\$ 24,521,662
\$ -	\$ -	\$ -	\$ -	\$ 3,947,756
-	-	-	-	4,563,720
-	-	-	-	5,416,053
-	-	-	-	259,175
7,100,260	-	-	-	7,100,260
-	-	-	131,058	610,876
-	-	-	6,206	160,338
-	-	-	72,313	77,863
-	-	-	-	159,143
-	-	-	-	172,001
-	380,000	-	-	380,000
-	283,300	-	-	283,300
\$ 7,100,260	\$ 663,300	\$ -	\$ 209,577	\$ 23,130,485
\$ 225,001	\$ 45,438	\$ -	\$ (7,831)	\$ 1,391,177
\$ -	\$ -	\$ -	\$ -	\$ 375,253
-	-	(375,253)	-	(375,253)
-	-	-	-	36,242
\$ -	\$ -	\$ (375,253)	\$ -	\$ 36,242
\$ 225,001	\$ 45,438	\$ (375,253)	\$ (7,831)	\$ 1,427,419
4,885,121	105,594	426,894	43,838	12,098,127
-	-	-	-	15,450
\$ 5,110,122	\$ 151,032	\$ 51,641	\$ 36,007	\$ 13,540,996

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) \$ 1,427,419

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets, infrastructure, and other related capital assets adjustment	\$ 2,643,887	
Current year depreciation	(1,421,362)	1,222,525

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(474,231)
--	--	-----------

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	\$ 180,000	
Lease revenue bonds	60,000	
General obligation capital notes	140,000	
East Central Solid Waste Commission liability	238,546	618,546

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

Change in matured interest payable	\$ 4,800	
Change in compensated absences	(77,376)	
Change in inventories	15,450	
Current year amortization of issuance costs	(3,481)	(60,607)

Change in net assets of governmental activities (Exhibit 2) \$ 2,733,652

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT 7

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2004

	<u>Private- Purpose Trust</u>	<u>Agency</u>
<u>Assets</u>		
Cash and pooled investments	\$ 131,782	\$ 823,981
Accrued interest receivable	616	-
Total Assets	<u>\$ 132,398</u>	<u>\$ 823,981</u>
<u>Liabilities</u>		
Accounts payable	\$ 371	\$ -
Due to other governments	-	823,981
Total Liabilities	<u>\$ 371</u>	<u>\$ 823,981</u>
<u>Net Assets</u>		
Net assets, restricted for other purposes	<u>\$ 132,027</u>	

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT 8

PRIVATE-PURPOSE TRUST FUND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004

<u>Additions</u>	
Investment income	\$ 306
<u>Deductions</u>	
Payments in accordance with trust agreements	<u>772</u>
Change in net assets	\$ (466)
Net Assets - January 1	<u>132,493</u>
Net Assets - December 31	<u><u>\$ 132,027</u></u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

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

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Blended Component Unit

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

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about Mille Lacs County. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities.

In the government-wide statement of net assets, the governmental activities column:

- (a) is presented on a consolidated basis; and

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

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

Additionally, the County reports the following fund types:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2004, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2004 were \$158,551.

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

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

2. Receivables and Payables

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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

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 on October 15.

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

3. Inventories

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

4. Capital Assets

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

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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

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

5. Compensated Absences

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

6. Deferred Revenue

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

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Long-Term Obligations (Continued)

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 an other financing source. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Equity

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

9. Use of Estimates

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Individual Fund Deficits of Equity Accounts

Ditch Special Revenue Fund

Two of six drainage systems of the Ditch Special Revenue Fund have incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund balance as of December 31, 2004.

Account balances	\$ 26,325
Account balance deficits	<u>(4,428)</u>
Fund Balance	<u>\$ 21,897</u>

B. Excess of Expenditures over Appropriations

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

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Special Revenue Funds			
Road and Bridge	\$ 5,575,196	\$ 4,668,320	\$ 906,876
Welfare	7,100,260	7,005,756	94,504
Community Health Services	131,058	124,896	6,162
Housing and Redevelopment Authority	72,313	71,341	972

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$11,901,047. The bank balance deposit amount was \$12,240,237. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

	Bank Balance
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 7,575,000
Collateralized with securities held by the pledging financial institution's agent in the County's name	4,665,237
Total covered deposits	\$ 12,240,237
Uncollateralized	-
Total	\$ 12,240,237

Following is a reconciliation of the County's cash and deposits to the fund financial statements:

Governmental activities	
Cash and pooled investments	\$ 13,275,758
Petty cash and change funds	1,450
Departmental cash	15,520
Cash overdraft	(8,713)
Fiduciary funds	
Private-Purpose Trust Fund	
Cash and pooled investments	131,782
Agency funds	
Cash and pooled investments	823,981
Total Cash and Investments	\$ 14,239,778
Cash on hand	\$ 16,970
Checking accounts	1,128,323
Savings accounts	2,385,673
Certificates of deposit	8,387,051
Minnesota Association of Governments	
Investing in Counties (MAGIC) Fund	2,321,761
Total Cash and Investments	\$ 14,239,778

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

The County has no receivables scheduled to be collected beyond one year, except for deferred special assessments.

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,155,547	\$ -	\$ -	\$ 1,155,547
Capital assets depreciated				
Land improvements	\$ 508,557	\$ -	\$ -	\$ 508,557
Buildings	8,646,914	-	-	8,646,914
Machinery and equipment	4,348,515	646,415	74,276	4,920,654
Infrastructure	41,142,062	1,997,472	-	43,139,534
Total capital assets depreciated	\$ 54,646,048	\$ 2,643,887	\$ 74,276	\$ 57,215,659
Less: accumulated depreciation for				
Land improvements	\$ 194,387	\$ 20,342	\$ -	\$ 214,729
Buildings	2,702,525	198,431	-	2,900,956
Machinery and equipment	3,465,638	376,414	74,276	3,767,776
Infrastructure	8,299,044	826,175	-	9,125,219
Total accumulated depreciation	\$ 14,661,594	\$ 1,421,362	\$ 74,276	\$ 16,008,680
Total capital assets depreciated, net	\$ 39,984,454	\$ 1,222,525	\$ -	\$ 41,206,979
Governmental Activities Capital Assets, Net	\$ 41,140,001	\$ 1,222,525	\$ -	\$ 42,362,526

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	238,908
Public safety		138,826
Highways and streets, including depreciation of infrastructure assets		1,025,349
Human services		17,018
Health		749
Conservation of natural resources		512
		1,421,362
Total Depreciation Expense	\$	1,421,362

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

	Receivable	Payable
Major Governmental Funds		
General Fund	\$ 11,706	\$ -
Road and Bridge	-	154,640
Welfare	-	11,181
Debt Service	154,115	-
	165,821	165,821
Total Due To/From Other Funds	\$ 165,821	\$ 165,821

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

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

2. Advances From/To Other Funds

	Advances To	Advances From
Major Governmental Funds		
General Fund	\$ 10,417	\$ -
Nonmajor Governmental Funds		
Ditch	-	10,417
Total Advances To/From Other Funds	\$ 10,417	\$ 10,417

3. Interfund Transfers

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

Transfer to Road and Bridge Special Revenue Fund from Capital Projects Fund	\$ <u>375,253</u>	Capital equipment purchases
---	-------------------	-----------------------------

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

	Governmental Activities	Fiduciary Funds
Accounts	\$ 429,356	\$ 371
Salaries	300,084	-
Contracts	252,204	-
Due to other governments	167,299	823,981
Total Payables	\$ 1,148,943	\$ 824,352

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Deferred Revenue

Deferred revenue consists of taxes and special assessments receivable and state and federal grants receivable that are not collected soon enough after year-end to pay liabilities of the current period. It also includes state and federal grants received but not yet earned. Deferred revenue at December 31, 2004, is summarized below by fund:

	Taxes	Special Assessments	Grants	Total
Governmental Funds				
General	\$ 222,009	\$ 13,045	\$ -	\$ 235,054
Road and Bridge	26,124	-	2,893,946	2,920,070
Welfare	94,426	-	31,088	125,514
Debt Service	19,377	-	-	19,377
Total	<u>\$ 361,936</u>	<u>\$ 13,045</u>	<u>\$ 2,925,034</u>	<u>\$ 3,300,015</u>
Deferred revenue				
Unavailable	\$ 361,936	\$ 13,045	\$ 2,918,253	\$ 3,293,234
Unearned	-	-	6,781	6,781
Total	<u>\$ 361,936</u>	<u>\$ 13,045</u>	<u>\$ 2,925,034</u>	<u>\$ 3,300,015</u>

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
1997 G.O. Law Enforcement Center Bonds	02/01/2019	\$150,000 to \$380,000	4.50% to 5.00%	\$ 4,880,000	\$ 4,055,000
1998 HRA Lease Revenue Bonds	02/01/2019	\$55,000 to \$135,000	4.25% to 5.50%	1,725,000	1,440,000
2003 G.O. Capital notes	12/01/2006	\$120,000 to \$140,000	1.40% to 1.90%	385,000	245,000
East Central Solid Waste Commission	*	*	*	*	747,270
Total				<u>\$ 6,990,000</u>	<u>\$ 6,487,270</u>

*The liability for the East Central Solid Waste Commission is described in Note 5.C.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds		Lease Revenue Bonds		General Obligation Capital Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 185,000	\$ 190,679	\$ 65,000	\$ 74,679	\$ 120,000	\$ 4,295	\$ 370,000	\$ 269,653
2006	195,000	182,129	70,000	71,455	125,000	2,375	390,000	255,959
2007	205,000	173,129	70,000	68,060	-	-	275,000	241,189
2008	215,000	163,625	75,000	64,470	-	-	290,000	228,095
2009	225,000	153,559	80,000	60,555	-	-	305,000	214,114
2010-2014	1,320,000	590,526	470,000	233,063	-	-	1,790,000	823,589
2015-2019	1,710,000	222,809	610,000	87,395	-	-	2,320,000	310,204
Total	\$ 4,055,000	\$ 1,676,456	\$ 1,440,000	\$ 659,677	\$ 245,000	\$ 6,670	\$ 5,740,000	\$ 2,342,803

5. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 4,235,000	\$ -	\$ 180,000	\$ 4,055,000	\$ 185,000
Lease revenue bonds	1,500,000	-	60,000	1,440,000	65,000
General obligation capital notes	385,000	-	140,000	245,000	120,000
East Central Solid Waste Commission	985,816	1,009,755	1,248,301	747,270	263,340
Compensated absences	961,465	77,376	-	1,038,841	98,096
Long-Term Liabilities	\$ 8,067,281	\$ 1,087,131	\$ 1,628,301	\$ 7,526,111	\$ 731,436

D. Contract Commitments

The County has entered into a contract commitment for work on CSAH 8 which has not been completed as of December 31, 2004. The amount to be completed on this project is \$347,218. The County has also entered into a contract commitment for utility relocation work on and around CSAH 21 which has not been completed as of December 31, 2004. The amount to be completed on the utility relocation project is \$60,000. Total contract commitments on December 31, 2004, equal \$407,218.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description

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

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

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

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. 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 web at mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

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

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

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

	<u>Public Employees Retirement Fund</u>	<u>Public Employees Police and Fire Fund</u>	<u>Public Employees Correctional Fund</u>
2004	\$ 333,793	\$ 62,277	\$ 110,214
2003	319,147	58,402	105,315
2002	318,570	55,336	102,789

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

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other 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.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The Workers' Compensation Division of the MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

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

B. Contingent Liabilities

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

The County, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The County Attorney states that she does not have the necessary facts to evaluate the likelihood of unfavorable outcomes or to estimate the amount of the range of potential loss to the County resulting from such litigation.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

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

C. Joint Ventures

East Central Solid Waste Commission

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

Each County's proportionate share of the total operating costs is based on the most recent census data available and is to be adjusted upon the admission of additional counties or the withdrawal of counties. The Commission will remain in existence so long as two or more counties remain as parties to the agreement or until January 1, 2008. Upon dissolution of the Commission, there will be an accounting to determine assets and liabilities. The assets of the Commission will be liquidated and, after payment of liabilities, the proceeds will be distributed to the counties based on their respective ratios set by the most recent census data.

Each County's share of the Commission's assets, liabilities, and equities cannot be accurately determined since it will fluctuate with census data rather than ownership interest. Following is a summary of the financial information as of and for the year ended December 31, 2003 (most recent figures available):

Total Assets	\$ 15,472,224
Total Liabilities	\$ 7,780,277
Total Equity	<u>7,691,947</u>
Total Liabilities and Equity	<u>\$ 15,472,224</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

East Central Solid Waste Commission (Continued)

Operating and nonoperating revenues	\$ 4,125,503
Operating and nonoperating expenses	<u>4,808,294</u>
Net income (loss)	\$ (682,791)
Add: Net change in contributed capital	<u>982,303</u>
Change in Equity	<u>\$ 299,512</u>

Liabilities at December 31, 2003, include one revenue bond issue:

\$5,905,000 East Central Solid Waste Commission Solid Waste Resource Recovery Revenue Refunding Bonds, Series 2003, dated August 1, 2003: serial bonds maturing in amounts ranging from \$1,260,000 to \$1,535,000 each June 1 in the years 2004 to 2007 with interest due each June 1 and December 1 at rates from 1.75 to 2.55 percent.	<u>\$ 5,905,000</u>
---	---------------------

Should revenues be insufficient to retire the debt, the participating counties are currently responsible in the follow proportion:

Chisago County	28.0%
Isanti County	23.7
Kanabec County	11.7
Mille Lacs County	17.1
Pine County	19.5

During 1993, the participating counties were notified that the Commission was unable to meet its cash needs for debt service. The counties were assessed for their proportionate share. Mille Lacs County's share was \$167,974 for 2003 and \$163,036 for 2004. At December 31, 2004, Mille Lacs County has included a liability of \$747,270 in the Statement of Net Assets for its proportionate share of the Commission's bonds payable.

Complete financial statements of the East Central Solid Waste Commission can be obtained at 1756 - 180th Avenue, Mora, Minnesota 55051.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

East Central Regional Library

The East Central Regional Library was established by a joint powers agreement among Aitkin, Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to provide an efficient and improved regional public library service. The Library Board comprises 18 members--one County Board member, and two appointees from each member County. Mille Lacs County's contribution for 2004 was \$172,001.

Complete financial statements of the East Central Regional Library can be obtained at 244 South Birch, Cambridge, Minnesota 55008.

Snake River Watershed Management Board (SRWMB)

The Snake River Watershed Management Board was established in April 1993, pursuant to Minn. Stat. § 471.59, as a joint powers entity. Its purpose is to coordinate the member County water plans and to develop objectives to promote sound hydrologic management of the water and the related land resources. Members are Aitkin, Kanabec, Mille Lacs, and Pine Counties. Financial responsibility exists because once the SRWMB has established a budget and determined which projects will be undertaken, each member County is required by the agreement to provide appropriate financial support. The SRWMB establishes an annual budget, and participation in the administrative costs is as follows:

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

Complete financial statements of the Snake River Watershed Management Board can be obtained at Rural Route 3, Box 253, Mora, Minnesota 55051.

D. Subsequent Event

On February 1, 2005, the County issued \$3,555,000 General Obligation Law Enforcement Center Refunding Bonds, Series 2005, to refund the County's 1997 General Obligation Law Enforcement Center Bonds, of which \$3,470,000 in principal was callable on February 1, 2005.

This page was left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 5,937,755	\$ 5,937,755	\$ 6,093,813	\$ 156,058
Special assessments	236,500	236,500	251,698	15,198
Licenses and permits	462,410	462,410	546,905	84,495
Intergovernmental	2,345,434	2,345,434	2,402,064	56,630
Charges for services	758,900	758,900	1,196,186	437,286
Fines and forfeits	30,000	30,000	90,538	60,538
Gifts and contributions	6,600	6,600	36,566	29,966
Investment income	125,000	125,000	158,551	33,551
Miscellaneous	153,092	153,092	292,998	139,906
Total Revenues	\$ 10,055,691	\$ 10,055,691	\$ 11,069,319	\$ 1,013,628
Expenditures				
Current				
General government				
Commissioners	\$ 186,898	\$ 186,898	\$ 168,674	\$ 18,224
Courts	35,500	35,500	42,963	(7,463)
Law library	30,000	30,000	49,780	(19,780)
County administration	432,056	484,056	305,695	178,361
Coordinator	151,774	151,774	145,890	5,884
Auditor/Treasurer	400,710	400,710	511,769	(111,059)
County assessor	347,473	347,473	346,858	615
Data processing	190,284	190,284	185,428	4,856
Attorney	706,859	706,859	721,228	(14,369)
Recorder	236,151	236,151	256,088	(19,937)
Planning and zoning	593,396	593,396	606,250	(12,854)
Buildings and plant	517,493	517,493	433,555	83,938
Veterans service officer	115,911	115,911	119,211	(3,300)
Other general government	79,245	79,245	54,367	24,878
Total general government	\$ 4,023,750	\$ 4,075,750	\$ 3,947,756	\$ 127,994
Public safety				
Sheriff	\$ 1,520,400	\$ 1,520,400	\$ 1,440,347	\$ 80,053
Boat and water safety	33,206	33,206	37,763	(4,557)
Coroner	45,343	45,343	57,640	(12,297)
Enhanced 911	45,000	45,000	55,009	(10,009)
County jail	2,536,394	2,536,494	2,277,370	259,124
Caseload reduction	72,491	72,491	82,553	(10,062)
Probation and parole	537,843	537,843	555,800	(17,957)
Civil defense	39,700	40,050	57,238	(17,188)
Total public safety	\$ 4,830,377	\$ 4,830,827	\$ 4,563,720	\$ 267,107

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste management	\$ 236,500	\$ 236,500	\$ 163,036	\$ 73,464
SCORE	95,000	95,000	91,204	3,796
Hazardous waste	5,000	5,000	4,935	65
Total sanitation	\$ 336,500	\$ 336,500	\$ 259,175	\$ 77,325
Health				
Nursing service	\$ 608,178	\$ 608,228	\$ 479,818	\$ 128,410
Conservation of natural resources				
County extension	\$ 82,546	\$ 82,546	\$ 78,850	\$ 3,696
Soil and water conservation	43,495	61,762	63,403	(1,641)
Agricultural society	7,500	7,500	7,500	-
Other	4,379	4,379	4,379	-
Total conservation of natural resources	\$ 137,920	\$ 156,187	\$ 154,132	\$ 2,055
Economic development				
Community development	\$ 5,550	\$ 5,550	\$ 5,550	\$ -
Intergovernmental				
Culture and recreation				
Library	\$ 172,001	\$ 172,001	\$ 172,001	\$ -
Total Expenditures	\$ 10,114,276	\$ 10,185,043	\$ 9,582,152	\$ 602,891
Excess of Revenues Over (Under)				
Expenditures	\$ (58,585)	\$ (129,352)	\$ 1,487,167	\$ 1,616,519
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	3,000	3,000	9,712	6,712
Net Change in Fund Balance	\$ (55,585)	\$ (126,352)	\$ 1,496,879	\$ 1,623,231
Fund Balance - January 1	5,773,729	5,773,729	5,773,729	-
Fund Balance - December 31	\$ 5,718,144	\$ 5,647,377	\$ 7,270,608	\$ 1,623,231

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 621,283	\$ 621,283	\$ 612,847	\$ (8,436)
Licenses and permits	17,000	17,000	18,555	1,555
Intergovernmental	3,575,552	3,575,552	4,510,534	934,982
Charges for services	41,300	41,300	46,619	5,319
Miscellaneous	25,300	25,300	28,043	2,743
Total Revenues	\$ 4,280,435	\$ 4,280,435	\$ 5,216,598	\$ 936,163
Expenditures				
Current				
Highways and streets				
Administration	\$ 427,943	\$ 427,943	\$ 436,251	\$ (8,308)
Maintenance	1,079,592	1,079,592	925,932	153,660
Construction	2,228,226	2,228,226	3,221,865	(993,639)
Equipment maintenance and shops	773,416	773,416	830,668	(57,252)
Materials and services for resale	-	-	1,337	(1,337)
Total highways and streets	\$ 4,509,177	\$ 4,509,177	\$ 5,416,053	\$ (906,876)
Intergovernmental				
Highways and streets	159,143	159,143	159,143	-
Total Expenditures	\$ 4,668,320	\$ 4,668,320	\$ 5,575,196	\$ (906,876)
Excess of Revenues Over (Under) Expenditures	\$ (387,885)	\$ (387,885)	\$ (358,598)	\$ 29,287
Other Financing Sources (Uses)				
Transfers in	\$ 383,770	\$ 383,770	\$ 375,253	\$ (8,517)
Proceeds from sale of capital assets	-	-	26,530	26,530
Total Other Financing Sources (Uses)	\$ 383,770	\$ 383,770	\$ 401,783	\$ 18,013
Net Change in Fund Balance	\$ (4,115)	\$ (4,115)	\$ 43,185	\$ 47,300
Fund Balance - January 1	862,951	862,951	862,951	-
Increase (decrease) in reserved for inventories	-	-	15,450	15,450
Fund Balance - December 31	\$ 858,836	\$ 858,836	\$ 921,586	\$ 62,750

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,294,594	\$ 2,294,594	\$ 2,318,221	\$ 23,627
Intergovernmental	4,364,303	3,680,779	4,336,336	655,557
Charges for services	43,858	43,858	55,888	12,030
Miscellaneous	503,639	503,939	614,816	110,877
Total Revenues	\$ 7,206,394	\$ 6,523,170	\$ 7,325,261	\$ 802,091
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,356,648	\$ 1,356,748	\$ 1,394,765	\$ (38,017)
Social services	6,250,046	5,649,008	5,705,495	(56,487)
Total Expenditures	\$ 7,606,694	\$ 7,005,756	\$ 7,100,260	\$ (94,504)
Net Change in Fund Balance	\$ (400,300)	\$ (482,586)	\$ 225,001	\$ 707,587
Fund Balance - January 1	4,885,121	4,885,121	4,885,121	-
Fund Balance - December 31	\$ 4,484,821	\$ 4,402,535	\$ 5,110,122	\$ 707,587

**MILLE LACS COUNTY
MILACA, MINNESOTA**

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

1. Budgetary Information

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

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

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

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

2. Excess of Expenditures over Appropriations

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

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Special Revenue Funds:			
Road and Bridge	\$ 5,575,196	\$ 4,668,320	\$ 906,876
Welfare	7,100,260	7,005,756	94,504

This page was left blank intentionally.

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

Community Health Services - to account for the Mille Lacs and Isanti Counties' Cooperative Community Health Services. Financing is provided by a state grant.

Housing and Redevelopment Authority - to account for the activities of the Mille Lacs County Housing and Redevelopment Authority.

This page was left blank intentionally.

MILLE LACS COUNTY
MILACA, MINNESOTA

Statement 1

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2004

	Ditch	Special Revenue Community Health Services	Housing and Redevelopment Authority	Total Nonmajor Governmental Funds
<u>Assets</u>				
Cash and pooled investments	\$ 32,314	\$ 496	\$ 8,902	\$ 41,712
Due from other governments	-	9,878	-	9,878
Total Assets	\$ 32,314	\$ 10,374	\$ 8,902	\$ 51,590
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ -	\$ 922	\$ -	\$ 922
Salaries payable	-	4,244	-	4,244
Advances from other funds	10,417	-	-	10,417
Total Liabilities	\$ 10,417	\$ 5,166	\$ -	\$ 15,583
Fund Balances				
Unreserved				
Undesignated	21,897	5,208	8,902	36,007
Total Liabilities and Fund Balances	\$ 32,314	\$ 10,374	\$ 8,902	\$ 51,590

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Statement 2

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

	<u>Ditch</u>	<u>Special Revenue Community Health Services</u>	<u>Housing and Redevelopment Authority</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues				
Taxes	\$ -	\$ -	\$ 72,313	\$ 72,313
Special assessments	7,380	-	-	7,380
Intergovernmental	-	119,945	-	119,945
Miscellaneous	-	2,108	-	2,108
Total Revenues	\$ 7,380	\$ 122,053	\$ 72,313	\$ 201,746
Expenditures				
Current				
Health	\$ -	\$ 131,058	\$ -	\$ 131,058
Conservation of natural resources	6,206	-	-	6,206
Economic development	-	-	72,313	72,313
Total Expenditures	\$ 6,206	\$ 131,058	\$ 72,313	\$ 209,577
Net Change in Fund Balances	\$ 1,174	\$ (9,005)	\$ -	\$ (7,831)
Fund Balances - January 1	20,723	14,213	8,902	43,838
Fund Balances - December 31	\$ 21,897	\$ 5,208	\$ 8,902	\$ 36,007

MILLE LACS COUNTY
MILACA, MINNESOTA

Schedule 4

BUDGETARY COMPARISON SCHEDULE
COMMUNITY HEALTH SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 119,896	\$ 119,896	\$ 119,945	\$ 49
Charges for services	5,000	5,000	-	(5,000)
Miscellaneous	-	-	2,108	2,108
Total Revenues	\$ 124,896	\$ 124,896	\$ 122,053	\$ (2,843)
Expenditures				
Current				
Health				
Nursing service	124,896	124,896	131,058	(6,162)
Net Change in Fund Balance	\$ -	\$ -	\$ (9,005)	\$ (9,005)
Fund Balance - January 1	14,213	14,213	14,213	-
Fund Balance - December 31	\$ 14,213	\$ 14,213	\$ 5,208	\$ (9,005)

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
HOUSING AND REDEVELOPMENT AUTHORITY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 71,341	\$ 71,341	\$ 72,313	\$ 972
Expenditures				
Current				
Economic development	71,341	71,341	72,313	(972)
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -
Fund Balance - January 1	8,902	8,902	8,902	-
Fund Balance - December 31	\$ 8,902	\$ 8,902	\$ 8,902	\$ -

**MILLE LACS COUNTY
MILACA, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

Region Seven - to account for the funds collected by the County and disbursed to the Region Seven East Development Commission.

School Districts - to account for the school districts' share of taxes collected by the County.

State Agency - to account for the receipt and remittance of funds collected for the State of Minnesota and other local units of government.

Taxes and Penalties - to account for collection of real estate taxes and forfeited tax sale proceeds and their payment to various taxing districts.

County Agency - to account for the collection and remittance of funds for the employee flexible spending account plan.

Towns and Cities - to account for the collection and payment of taxes due to towns and cities.

Family Ties - to account for the receipts and disbursements of the Family Ties Collaborative.

This page was left blank intentionally.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Statement 3

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>REGION SEVEN</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 26,463	\$ 26,463	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 26,463	\$ 26,463	\$ -
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 3,254,854	\$ 3,254,854	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 3,254,854	\$ 3,254,854	\$ -
<u>STATE AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 5,415	\$ 1,720,719	\$ 1,720,764	\$ 5,370
<u>Liabilities</u>				
Due to other governments	\$ 5,415	\$ 1,720,719	\$ 1,720,764	\$ 5,370
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 185,356	\$ 21,239,810	\$ 21,274,948	\$ 150,218
<u>Liabilities</u>				
Due to other governments	\$ 185,356	\$ 21,239,810	\$ 21,274,948	\$ 150,218

**MILLE LACS COUNTY
MILACA, MINNESOTA**

*Statement 3
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>COUNTY AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 14,743	\$ 169,782	\$ 174,788	\$ 9,737
<u>Liabilities</u>				
Due to other governments	\$ 14,743	\$ 169,782	\$ 174,788	\$ 9,737
 <u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 4,172,279	\$ 4,172,279	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 4,172,279	\$ 4,172,279	\$ -
 <u>FAMILY TIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 466,260	\$ 740,156	\$ 547,760	\$ 658,656
<u>Liabilities</u>				
Due to other governments	\$ 466,260	\$ 740,156	\$ 547,760	\$ 658,656
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 671,774	\$ 31,324,063	\$ 31,171,856	\$ 823,981
<u>Liabilities</u>				
Due to other governments	\$ 671,774	\$ 31,324,063	\$ 31,171,856	\$ 823,981

OTHER SCHEDULES

This page was left blank intentionally.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 6

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

	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Fair Value</u>
Pooled Deposits and Investments			
Checking accounts			
First National Bank of Milaca	Variable	Continuous	<u>\$ 1,128,323</u>
Savings accounts			
First National Bank of Milaca	Variable	Continuous	\$ 213,826
Bremer Bank	Variable	Continuous	<u>2,171,847</u>
Total savings accounts			<u>\$ 2,385,673</u>
Certificates of deposit			
First National Bank of Milaca	3.70	Various	\$ 10,000
Peoples Bank of Commerce	1.45	Various	1,075,586
AmBac Securities, Inc.	1.15 to 1.75	Various	<u>7,275,000</u>
Total certificates of deposit			<u>\$ 8,360,586</u>
MAGIC fund			
AmBac Securities, Inc.	Variable	Continuous	<u>\$ 2,321,761</u>
Total pooled deposits and investments			<u>\$ 14,196,343</u>
Private-Purpose Trust Fund Investments			
Certificates of deposit			
First National Bank of Milaca	2.00 to 2.10	Various	\$ 13,435
Bremer Bank	1.35 to 1.65	Various	6,260
Peoples Bank of Commerce	1.75 to 1.87	Various	<u>6,770</u>
Total private-purpose trust fund investments			<u>\$ 26,465</u>
Total Deposits and Investments			<u>\$ 14,222,808</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 7

TAX CAPACITY, TAX CAPACITY RATES, LEVIES, AND PERCENTAGE OF COLLECTIONS

	2003		2004		2005	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Tax Capacity						
Real property	\$ 11,018,626		\$ 13,072,147		\$ 15,279,147	
Personal property	247,332		267,235		285,924	
Total Tax Capacity	\$ 11,265,958		\$ 13,339,382		\$ 15,565,071	
Taxes Levied for County Purposes						
General	\$ 6,567,154	53.044	\$ 7,232,719	51.535	\$ 7,326,105	42.421
Road and Bridge	715,215	5.460	761,039	6.534	2,104,219	13.460
Welfare	3,081,870	25.255	2,877,006	20.048	2,676,101	15.838
Debt Service	543,048	4.960	696,466	4.190	669,487	4.429
Total Levy for County Purposes	\$ 10,907,287	88.719	\$ 11,567,230	82.307	\$ 12,775,912	76.148
Less Homestead Credits Payable by State	(1,194,119)		(912,363)		(1,263,467)	
Net Levy Certified to State	\$ 9,713,168		\$ 10,654,867		\$ 11,512,445	
Less Market Value Credits Payable by State	(1,213,678)		(1,213,581)		(1,253,592)	
Net Levy for County Purposes	\$ 8,499,490		\$ 9,441,286		\$ 10,258,853	
Percentage of Tax Collections for All Purposes	97.03%		97.13%		-	

MILLE LACS COUNTY
MILACA, MINNESOTA

Schedule 8

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

	<u>Assets</u>	<u>Liabilities</u>	<u>Fund</u>	<u>Total</u>
	<u>Cash</u>	<u>Advances</u>	<u>Balance</u>	<u>Liabilities</u>
		<u>From</u>	<u>Undesignated</u>	<u>and Fund</u>
		<u>Other Funds</u>		<u>Balance</u>
County Ditch				
2	\$ 2,918	\$ 3,534	\$ (616)	\$ 2,918
3	4,409	-	4,409	4,409
4	14,100	-	14,100	14,100
5	4,572	-	4,572	4,572
14	6,315	3,071	3,244	6,315
Joint Ditch				
3	-	3,812	(3,812)	-
Total	<u>\$ 32,314</u>	<u>\$ 10,417</u>	<u>\$ 21,897</u>	<u>\$ 32,314</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 9

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

Shared Revenue

State

Highway users tax	\$	3,800,904
HACA		912,363
Market value credit		1,223,883
PERA rate reimbursement		30,786
Disparity reduction aid		24,904
Police aid		77,461
Indian casino aid		81,636
Enhanced 911		48,376
		48,376

Total Shared Revenue **\$ 6,200,313**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	1,906,850
--	----	-----------

Payments

Local

Payments in lieu of taxes	\$	80,684
---------------------------	----	--------

Grants

State

Minnesota Department/Board of		
Corrections	\$	183,861
Public Safety		18,633
Health		102,846
Natural Resources		11,572
Human Services		1,298,125
Water and Soil Resources		62,227
Office of Environmental Assistance		54,581
Peace Officers Board		7,520
		7,520

Total State **\$ 1,739,365**

Federal Department/Agency

Agriculture	\$	62,022
Justice		33,212
Transportation		590,595
Environmental Protection		4,500
Health and Human Services		808,332
Homeland Security		32,133
		32,133

Total Federal **\$ 1,530,794**

Total State and Federal Grants **\$ 3,270,159**

Total Intergovernmental Revenue **\$ 11,458,006**

This page was left blank intentionally.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 10

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

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Mille Lacs County.
- B. Reportable conditions in internal control were disclosed by the audit of financial statements of Mille Lacs County and are reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Mille Lacs County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Mille Lacs County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:
 - Highway Planning and Construction
 - CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Mille Lacs County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 Departmental Internal Accounting Control

Due to the limited number of office personnel within the various County offices, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. In some offices, there may be only one employee to receive and account for departmental collections. This is not unusual in small departmental situations; 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.

Examples of incompatible duties which should be performed by separate individuals are:

- receipting collections, posting collections to registers, and making bank deposits;
- signing checks and reconciling the bank accounts;
- receipting collections and posting collections to the accounts receivable records;
- approving receivable write-offs/write-downs and posting adjustments to the accounts receivable records; and
- data entry, adjusting accounting codes, and reviewing the monthly detailed report of receipts and disbursements for accuracy.

Some procedures the County's management may wish to consider to strengthen controls in these offices include:

- Departmental collections should be remitted to the County Auditor/Treasurer more frequently than once each month, perhaps weekly or even daily, to reduce the amount of funds on hand.
- Department heads should monitor operations within their office to determine that reports are submitted properly and are in agreement with cash balances and grant expenditures.

- When an office has only a department head and one other employee, the department head should perform some of the accounting functions.

We recommend that County management be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that adequate controls are in place over cash, receivables, and other items.

Client's Response:

This condition is due to the limited number of office personnel within the various offices. The Board is aware of this ongoing condition and chooses not to approve hiring additional employees to eliminate this condition. The County's limited ability to levy additional taxes to provide salaries for additional employees seems to be the obstacle. Management is relied upon for monitoring cash management as this condition continues to exist.

ITEMS ARISING THIS YEAR

04-1 Disaster Recovery Plan

The County has a written disaster recovery plan in the event of a disaster involving its computer operations, however it has not been updated since 1987. Since that time, the implementation of new computer systems and software has made the current plan outdated.

With increased reliance on data processing in the day-to-day operations of the County, an outdated disaster recovery plan could delay the County's return to normal operations after a computer-related disaster.

We recommend the County review and update its disaster recovery plan to reflect new systems, software, and changes in personnel and operations that have occurred since the plan was last updated.

Client's Response:

The disaster recovery plan is being reviewed. We will be consulting with our current AS-400 provider, and the plan will be updated.

04-2 Computer Passwords

County employees needing computer access create passwords when they are initially provided access to the system. The County currently has no written policies regarding password confidentiality, and there is no requirement to periodically change passwords after they have been initially assigned.

We recommend the County adopt a computer password policy that includes instructions on password confidentiality and a requirement for passwords to be changed on a regular basis.

Client's Response:

The IS Department is updating the computer password policy. Employees will be prompted automatically to change their passwords at regular intervals.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

98-5 Fund Balance Deficits - Ditch Special Revenue Fund

Two of the six active drainage ditch systems in the Ditch Special Revenue Fund had deficit fund balances as of December 31, 2004, totaling \$4,428. Minn. Stat. § 103E.735, subd. 1, permits the accumulation of a surplus balance to provide for the repair and maintenance costs of a ditch system. This fund balance may be established for any drainage system, not to exceed 20 percent of the assessed benefits of a ditch system or \$40,000, whichever is larger.

We realize this is an ongoing problem and recommend that the County take the appropriate steps to eliminate the deficit fund balances in these ditch systems by levying assessments as allowed by Minn. Stat. § 103E.735, subd. 1.

Client's Response:

The Board has been approving levies for County Ditch 2, and will continue to levy until a sufficient balance has been reached.

02-1 Annual Financial Report

Mille Lacs County has a responsibility to prepare financial statements and publish them for its citizens and others. In previous years, the Office of the State Auditor (OSA) has helped the County in preparing its annual financial report. The annual financial report includes financial statements, related notes to the financial statements, and schedules.

A step in preparing financial statements is the preparation of schedules and worksheets to summarize the County's financial records for the financial report. For example, the records of the County could have several different receivable or revenue accounts combined into one line for financial reporting. Also, accounts need to be analyzed to decide if revenue should be accrued for receipts received after year-end or payables accrued for expenditures made after year-end.

Currently, Mille Lacs County staff prepare only limited amounts of information for the financial statements. OSA staff have been providing the nonaudit services necessary for preparation of the annual financial report. These nonaudit services provided include, but may not be limited to, the following: summarizing each fund's cash transactions in the format for financial presentation in a trial balance, summarizing receivable and payable information for the trial balances, summarizing capital assets and long-term debt at the end of the year, and converting cash basis information to modified or full accrual.

Recent changes to *Government Auditing Standards*, issued by the Comptroller General of the United States, require the OSA to reassess the nonaudit services it provides to its audit clients. The primary effect of the change in *Government Auditing Standards* on the County is that the County needs to prepare the summary schedules of receivables and payables, classify its accounts for the financial statements, prepare the trial balances for audit, and make all policy decisions. If necessary, we will continue to prepare financial statements based on this data as technical assistance.

We recognize that the County has made progress in preparing information needed for the audit, and we acknowledge the County for its improvements in this area. We recommend that the County Board direct County staff to prepare the summary schedules and trial balances. We also recommend the County Board agree to ensure that staff assigned to

Schedule 10
(Continued)

prepare this information have a good understanding of generally accepted accounting principles for government and the time necessary to complete the information needed for the annual financial report by the date mutually agreed to with the OSA.

Client's Response:

We are working at completing more of the schedules. We have also contracted for additional technical assistance through our computer financial system vendor to accomplish completing more of the statements on the system.

OTHER REQUIRED REPORTS

This page was left blank intentionally.



STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

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

PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Mille Lacs County

We have audited the financial statements of Mille Lacs County as of and for the year ended December 31, 2004, and have issued our report thereon dated July 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mille Lacs County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 96-1, 04-1, and 04-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions indicated above is a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for 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, Mille Lacs 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 and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: July 20, 2005



STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

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

PATRICIA ANDERSON
STATE AUDITOR

**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
Mille Lacs County

Compliance

We have audited the compliance of Mille Lacs 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, 2004. Mille Lacs 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.

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

In our opinion, Mille Lacs County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

The management of Mille Lacs County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program 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 Mille Lacs County as of and for the year ended December 31, 2004, and have issued our report thereon dated July 20, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board, 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 20, 2005

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 11

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	\$ 62,022
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Juvenile Accountability Incentive Block Grant	16.523	\$ 17,785
Crime Victim Assistance	16.575	15,427
Total U.S. Department of Justice		\$ 33,212
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 563,931
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	6,364
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	20,300
Total U.S. Department of Transportation		\$ 590,595
U.S. Environmental Protection Agency		
Passed Through Minnesota Department of Health State Indoor Radon Grant	66.032	\$ 4,500
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 9,855
Temporary Assistance for Needy Families	93.558	190,052
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	12,417
Foster Care Title IV-E	93.658	246,220
Social Services Block Grant Title XX	93.667	229,950
Chafee Foster Care Independence Program	93.674	10,329
Community Mental Health Services Block Grant	93.958	5,571
Passed Through Minnesota Department of Health Center for Disease Control and Prevention Investigations and Technical Assistance	93.283	35,297

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 11
(Continued)

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health (Continued)		
Temporary Assistance for Needy Families	93.558	20,820
Maternal and Child Health Services Block Grant	93.994	32,011
Passed Through Minnesota Supreme Court		
Children's Justice Grant to States	93.643	15,810
Total U.S. Department of Health and Human Services		\$ 808,332
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
State Domestic Preparedness Equipment Support Grant	97.004	\$ 14,468
Boating Safety Financial Assistance	97.012	4,387
Emergency Management Performance Grant	97.042	13,278
Total U.S. Department of Homeland Security		\$ 32,133
Total Federal Awards		\$ 1,530,794

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 Mille Lacs County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2004, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.