

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

MILLE LACS COUNTY
MILACA, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

Year Ended December 31, 2005



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

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**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	50
Road and Bridge Special Revenue Fund	Schedule 2	52
Welfare Special Revenue Fund	Schedule 3	53
Notes to the Required Supplementary Information		54

**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		55
Combining Balance Sheet - Nonmajor Governmental Funds	Statement 1	56
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	Statement 2	57
Budgetary Comparison Schedules		
Community Health Services Special Revenue Fund	Schedule 4	58
Housing and Redevelopment Authority Special Revenue Fund	Schedule 5	59
Fiduciary Funds		
Agency Funds		60
Combining Statement of Changes in Assets and Liabilities	Statement 3	61
Other Schedules		
Schedule of Deposits and Investments	Schedule 6	64
Tax Capacity, Tax Capacity Rates, Levies, and Percentage of Collections	Schedule 7	65
Balance Sheet - by Ditch - Ditch Special Revenue Fund	Schedule 8	66
Schedule of Intergovernmental Revenue	Schedule 9	67
Management and Compliance Section		
Schedule of Findings and Questioned Costs	Schedule 10	68
Other Required Reports		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i>		75
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		77
Schedule of Expenditures of Federal Awards	Schedule 11	79

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

**ORGANIZATION
2005**

Office	Name	Term	
		From	To
Commissioners			
1st District	Jack Edmonds	January 2005	January 2009
2nd District	Roger Neske	January 2003	January 2007
3rd District	Phil Peterson*	January 2005	January 2009
4th District	Robert Hoefert	January 2003	January 2007
5th District	Frank Courteau	January 2005	January 2009
Officers			
Elected			
Attorney	Janice Kolb	January 2003	January 2007
Auditor/Treasurer	Philip Thompson	January 2003	January 2007
County Recorder	Jennifer LaDuke	December 2004	January 2007
Sheriff	Brent Lindgren	January 2003	January 2007
Appointed			
Assessor	Patricia Stotz	January 2005	December 2008
Coroner	Janice Amatuzio	January 2003	January 2007
County Engineer	Richard Larson	May 2005	May 2009
Probation Officer	Warren Liepitz	Indefinite	Indefinite
Surveyor	Dennis Pedersen	Indefinite	Indefinite
Veterans' Service Officer	Ken Olson	Indefinite	Indefinite
IS Director	Michael Virnig	Indefinite	Indefinite
Public Health Director	Kay Keimig	Indefinite	Indefinite
Maintenance	Joe Ahner	Indefinite	Indefinite
Court Administrator	Ronald Tvedt	Indefinite	Indefinite
Zoning Administrator	Michele McPherson	Indefinite	Indefinite
County Coordinator	Bobbie Danielson	Indefinite	Indefinite
Welfare			
Board			
Chair	Phil Peterson	July 2005	July 2006
Vice Chair	Jack Edmonds	July 2005	July 2006
Secretary	La Von Ziegler	July 2005	July 2006
Member	Roger Neske	July 2005	July 2006
Member	Sarah Herrick	July 2005	July 2006
Member	Robert Hoefert	July 2005	July 2006
Member	Frank Courteau	July 2005	July 2006
Director	Leo Vos	Indefinite	Indefinite

*Board Chair

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STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

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, 2005, 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, 2005, 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 September 20, 2006, 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: September 20, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

(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, 2005. 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 \$53,070,609, of which Mille Lacs County has invested \$37,105,700 in capital assets, net of related debt, and \$2,461,550 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, 2005, was \$12,374,043; the net cost was funded by general revenues and other items totaling \$13,880,347.
- At the close of 2005, Mille Lacs County's governmental funds reported combined ending fund balances of \$18,389,181, an increase of \$4,848,185 from the previous year-end balance. At the end of the year, Mille Lacs County's unreserved fund balance totaled \$12,315,695, 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

	2005	2004
Current and other assets	\$ 22,310,737	\$ 18,005,628
Capital assets	42,475,700	42,362,526
Total Assets	\$ 64,786,437	\$ 60,368,154
Long-term liabilities outstanding	\$ 10,456,874	\$ 7,526,111
Other liabilities	1,258,954	1,277,738
Total Liabilities	\$ 11,715,828	\$ 8,803,849
Net Assets		
Invested in capital assets, net of related debt	\$ 37,105,700	\$ 36,622,526
Restricted	2,461,550	716,200
Unrestricted	13,503,359	14,225,579
Total Net Assets	\$ 53,070,609	\$ 51,564,305

Mille Lacs County's total net assets for the year ended December 31, 2005, was \$53,070,609. The governmental activities unrestricted net assets, totaling \$13,503,359, are available to finance the day-to-day operations of the governmental activities of Mille Lacs County.

Table 2
Changes in Net Assets

	2005	2004
Revenues		
Program Revenues		
Fees, charges, fines, and other	\$ 2,816,825	\$ 2,696,229
Operating grants and contributions	6,344,187	6,019,856
Capital grants and contributions	2,380,395	2,891,433
General Revenues		
Property taxes	10,411,175	9,650,516
Other	3,469,172	2,755,639
Total Revenues	\$ 25,421,754	\$ 24,013,673

	<u>2005</u>	<u>2004</u>
Expenses		
General government	\$ 4,263,873	\$ 4,061,978
Public safety	5,215,634	4,580,014
Highways and streets	5,661,595	4,187,581
Sanitation	100,430	96,139
Human services	7,211,562	7,047,167
Health	627,094	614,313
Culture and recreation	203,983	172,001
Conservation of natural resources	168,568	160,984
Economic development	79,223	77,863
Interest	383,488	281,981
	<u>\$ 23,915,450</u>	<u>\$ 21,280,021</u>
Total Expenses		
Increase in Net Assets	\$ 1,506,304	\$ 2,733,652
Net Assets, January 1	<u>51,564,305</u>	<u>48,830,653</u>
Net Assets, December 31	<u>\$ 53,070,609</u>	<u>\$ 51,564,305</u>

Governmental Activities

Revenues for Mille Lacs County's governmental activities for the year ended December 31, 2005, were \$25,421,754. The County's cost for all governmental activities for the year ended December 31, 2005, was \$23,915,450. The net assets for the County's governmental activities increased by \$1,506,304 in 2005.

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 \$10,411,175, because \$11,541,407 of the costs were paid by those who directly benefited from the programs, and \$2,648,569 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 \$820,603 in other revenues, such as investment income, mortgage registry tax, and state deed tax.

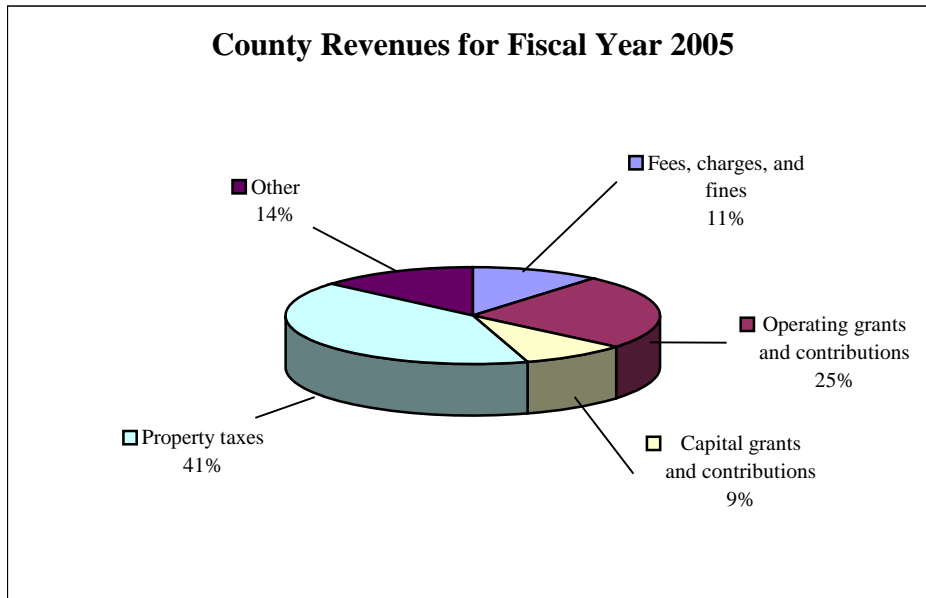
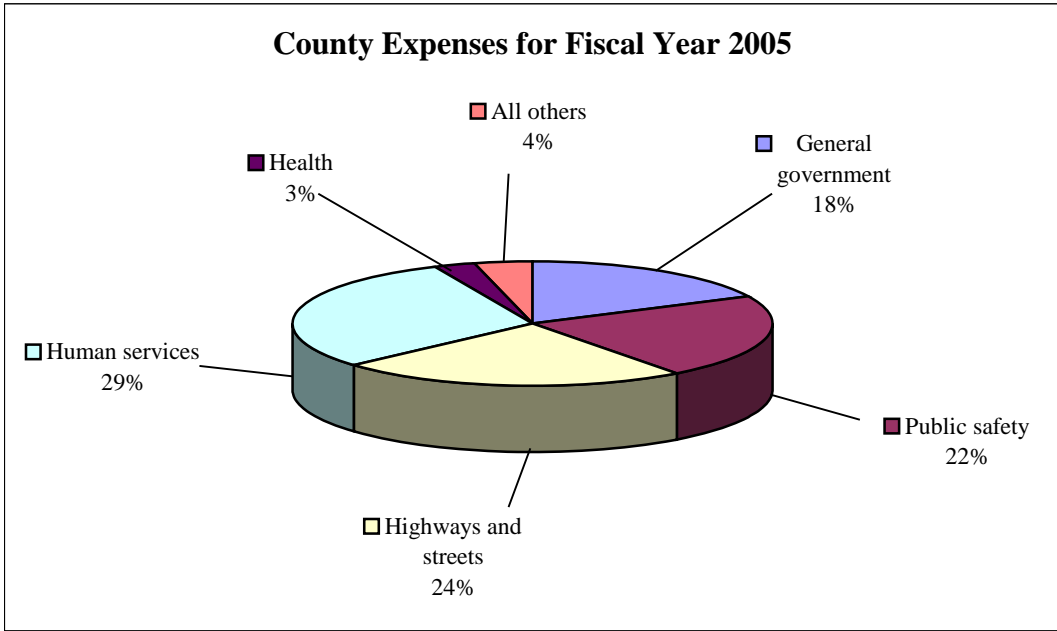


Table 3 presents the cost of each of Mille Lacs County’s five largest program functions as well as each function’s net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden placed on Mille Lacs County’s taxpayers by each of these functions.

**Table 3
Governmental Activities**

	Total Cost of Services 2005	Net Cost of Services 2005
	<hr/>	<hr/>
Program Expenses		
General government	\$ 4,263,873	\$ 3,006,277
Public safety	5,215,634	3,914,227
Highways and streets	5,661,595	1,773,852
Human services	7,211,562	2,946,959
Health	627,094	168,799
All others	935,692	563,929
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Total Program Expenses	\$ 23,915,450	\$ 12,374,043
	<hr/> <hr/>	<hr/> <hr/>



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 \$18,389,181.

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 2005, the County Board of Commissioners made no changes to the budget as originally adopted on December 21, 2004. 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 \$1,189,166, and actual expenditures were \$1,756 less than budgeted expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, Mille Lacs County had \$42,475,700 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)

	2005	2004
Land	\$ 1,269,918	\$ 1,155,547
Land improvements	273,496	293,828
Building	5,559,120	5,745,958
Machinery and equipment	1,611,634	1,152,878
Infrastructure	<u>33,761,532</u>	<u>34,014,315</u>
Total	<u>\$ 42,475,700</u>	<u>\$ 42,362,526</u>

Debt Administration

At December 31, 2005, Mille Lacs County had \$8,925,000 in bonds and notes outstanding, compared with \$5,740,000 as of December 31, 2004--an increase of 55.5 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

Bonds and Notes Payable	Governmental Activities		Percent Change (%)
	2005	2004	
1997 G.O. Law Enforcement Center Bonds	\$ 3,870,000	\$ 4,055,000	(4.6)
1998 HRA Lease Revenue Bonds	1,375,000	1,440,000	(4.5)
2003 G.O. Capital Notes	125,000	245,000	(49.0)
2005 G.O. Law Enforcement Center Refunding Bonds	<u>3,555,000</u>	<u>-</u>	N/A
Total	<u>\$ 8,925,000</u>	<u>\$ 5,740,000</u>	55.5

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 2005 was 6.3 percent. This is significantly above the statewide rate of 4.0 percent and the national rate of 5.1 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.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 1

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

Assets

Cash and pooled investments	\$	14,772,498
Petty cash and change funds		1,400
Departmental cash		12,297
Cash with fiscal agent		3,481,403
Taxes receivable		
Prior		568,993
Special assessments receivable		
Prior		18,304
Accounts receivable		60,320
Accrued interest receivable		160,628
Due from other governments		2,898,438
Inventories		246,806
Advances to other governments		53,550
Deferred charges		36,100
Capital assets		
Non-depreciable		1,269,918
Depreciable - net of accumulated depreciation		41,205,782
		41,205,782
Total Assets	\$	64,786,437

Liabilities

Accounts payable	\$	556,247
Salaries payable		324,320
Contracts payable		124,062
Due to other governments		94,539
Matured interest payable		157,948
Unearned revenue		1,838
Long-term liabilities		
Due within one year		746,774
Due in more than one year		9,710,100
		9,710,100
Total Liabilities	\$	11,715,828

Net Assets

Invested in capital assets - net of related debt	\$	37,105,700
Restricted for		
General government		121,084
Public safety		2,160,226
Debt service		180,240
Unrestricted		13,503,359
		13,503,359
Total Net Assets	\$	53,070,609

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 2

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

	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					
Governmental activities					
General government	\$ 4,263,873	\$ 1,168,249	\$ 89,347	\$ -	\$ (3,006,277)
Public safety	5,215,634	795,442	505,965	-	(3,914,227)
Highways and streets	5,661,595	118,802	1,643,628	2,125,313	(1,773,852)
Sanitation	100,430	3,818	-	-	(96,612)
Human services	7,211,562	556,865	3,707,738	-	(2,946,959)
Health	627,094	166,224	292,071	-	(168,799)
Culture and recreation	203,983	-	59,847	-	(144,136)
Conservation of natural resources	168,568	7,425	45,591	255,082	139,530
Economic development	79,223	-	-	-	(79,223)
Interest	383,488	-	-	-	(383,488)
Total	\$ 23,915,450	\$ 2,816,825	\$ 6,344,187	\$ 2,380,395	\$ (12,374,043)
General Revenues					
Property taxes					\$ 10,411,175
Mortgage registry and state deed tax					40,460
Payments in lieu of tax					84,487
Grants and contributions not restricted to specific programs					2,648,569
Investment income					542,255
Miscellaneous					100,200
Gain on disposal of general capital assets					53,201
Total general revenues					\$ 13,880,347
Change in net assets					\$ 1,506,304
Net Assets - January 1					51,564,305
Net Assets - December 31					\$ 53,070,609

FUND FINANCIAL STATEMENTS

**MILLE LACS COUNTY
MILACA, MINNESOTA**

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

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 8,326,844	\$ 1,399,869
Petty cash and change funds	1,350	-
Departmental cash	12,297	-
Cash with fiscal agent	-	-
Taxes receivable		
Prior	323,204	82,690
Special assessments receivable		
Prior	18,304	-
Accounts receivable	58,533	1,787
Accrued interest receivable	160,628	-
Due from other funds	9,147	-
Due from other governments	166,853	2,439,106
Inventories	-	246,806
Advances to other funds	10,417	-
Advances to other governments	-	-
	\$ 9,087,577	\$ 4,170,258
Total Assets	\$ 9,087,577	\$ 4,170,258

EXHIBIT 3

<u>Welfare</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 4,770,066	\$ 172,388	\$ 51,641	\$ 51,690	\$ 14,772,498
50	-	-	-	1,400
-	-	-	-	12,297
-	3,481,403	-	-	3,481,403
130,195	32,904	-	-	568,993
-	-	-	-	18,304
-	-	-	-	60,320
-	-	-	-	160,628
-	-	-	-	9,147
281,259	-	-	11,220	2,898,438
-	-	-	-	246,806
-	-	-	-	10,417
53,550	-	-	-	53,550
<u>\$ 5,235,120</u>	<u>\$ 3,686,695</u>	<u>\$ 51,641</u>	<u>\$ 62,910</u>	<u>\$ 22,294,201</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

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

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 167,754	\$ 95,418
Salaries payable	188,897	42,480
Contracts payable	-	124,062
Due to other funds	-	-
Due to other governments	81,508	-
Deferred revenue - unavailable	261,252	2,397,038
Deferred revenue - unearned	-	1,838
Advances from other funds	-	-
	\$ 699,411	\$ 2,660,836
Fund Balances		
Reserved for		
Encumbrances	\$ 2,008,445	\$ -
Inventories	-	246,806
Advances to other funds	10,417	-
Advances to other governments	-	-
Law library	29,939	-
Recorder's equipment	57,400	-
Enhanced 911	75,749	-
Cash with fiscal agent	-	-
DARE	32,679	-
Drug and alcohol contingency	10,685	-
DWI forfeiture	18,621	-
Drug forfeiture	14,047	-
Attorney - forfeited property	33,745	-
Unreserved		
Designated for debt service	-	-
Designated for working capital cash flows	3,950,961	922,281
Designated for petty cash funds	1,350	-
Undesignated	2,144,128	340,335
Unreserved, reported in nonmajor special revenue funds	-	-
	\$ 8,388,166	\$ 1,509,422
Total Liabilities and Fund Balances	\$ 9,087,577	\$ 4,170,258

EXHIBIT 3
(Continued)

<u>Welfare</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 292,674	\$ -	\$ -	\$ 401	\$ 556,247
87,964	-	-	4,979	324,320
-	-	-	-	124,062
9,147	-	-	-	9,147
13,028	-	-	3	94,539
101,108	25,052	-	-	2,784,450
-	-	-	-	1,838
-	-	-	10,417	10,417
\$ 503,921	\$ 25,052	\$ -	\$ 15,800	\$ 3,905,020
\$ -	\$ -	\$ -	\$ -	\$ 2,008,445
-	-	-	-	246,806
-	-	-	-	10,417
53,550	-	-	-	53,550
-	-	-	-	29,939
-	-	-	-	57,400
-	-	-	-	75,749
-	3,481,403	-	-	3,481,403
-	-	-	-	32,679
-	-	-	-	10,685
-	-	-	-	18,621
-	-	-	-	14,047
-	-	-	-	33,745
-	180,240	-	-	180,240
1,556,294	-	-	-	6,429,536
50	-	-	-	1,400
3,121,305	-	51,641	-	5,657,409
-	-	-	47,110	47,110
\$ 4,731,199	\$ 3,661,643	\$ 51,641	\$ 47,110	\$ 18,389,181
\$ 5,235,120	\$ 3,686,695	\$ 51,641	\$ 62,910	\$ 22,294,201

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**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, 2005**

Fund balances - total governmental funds (Exhibit 3)	\$	18,389,181
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.		42,475,700
Deferred charges are not available to pay current expenditures and, therefore, are not reported in the governmental funds.		36,100
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.		2,784,450
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	\$ (7,425,000)	
Unamortized discount on general obligation bonds	28,966	
Lease revenue bonds	(1,375,000)	
General obligation capital notes	(125,000)	
East Central Solid Waste Commission liability	(483,930)	
Compensated absences	(1,076,910)	(10,456,874)
		<hr/>
Matured interest payable is not due and payable in the current period and, therefore, is not reported in the governmental funds.		(157,948)
		<hr/>
Net assets of governmental activities (Exhibit 1)	\$	<u>53,070,609</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

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

	General	Road and Bridge
Revenues		
Taxes	\$ 5,800,936	\$ 1,782,724
Special assessments	253,936	-
Licenses and permits	616,087	16,450
Intergovernmental	2,777,883	4,586,008
Charges for services	1,197,644	91,119
Fines and forfeits	92,268	-
Gifts and contributions	3,741	-
Investment income	486,740	-
Miscellaneous	386,904	11,233
	\$ 11,616,139	\$ 6,487,534
Expenditures		
Current		
General government	\$ 4,219,282	\$ -
Public safety	5,201,412	-
Highways and streets	-	5,805,936
Sanitation	237,874	-
Human services	-	-
Health	475,998	-
Culture and recreation	3,300	-
Conservation of natural resources	167,210	-
Economic development	5,550	-
Intergovernmental		
Highways and streets	-	154,028
Culture and recreation	200,683	-
Debt service		
Principal	-	-
Interest	-	-
Bond issuance costs	-	-
	\$ 10,511,309	\$ 5,959,964
Excess of Revenues Over (Under) Expenditures	\$ 1,104,830	\$ 527,570
Other Financing Sources (Uses)		
Proceeds from sale of refunding bonds	\$ -	\$ -
Proceeds from sale of capital assets	12,728	55,211
Discount on bond issuance	-	-
	\$ 12,728	\$ 55,211
Net Change in Fund Balances	\$ 1,117,558	\$ 582,781
Fund Balances - January 1	7,270,608	921,586
Increase (decrease) in reserved for inventories	-	5,055
Fund Balances - December 31	\$ 8,388,166	\$ 1,509,422

EXHIBIT 5

Welfare	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 2,131,009	\$ 592,086	\$ -	\$ 73,673	\$ 10,380,428
-	-	-	7,425	261,361
-	-	-	-	632,537
4,204,806	74,956	-	136,299	11,779,952
53,016	-	-	8,714	1,350,493
-	-	-	-	92,268
-	-	-	-	3,741
-	55,515	-	-	542,255
503,849	-	-	2,316	904,302
\$ 6,892,680	\$ 722,557	\$ -	\$ 228,427	\$ 25,947,337
\$ -	\$ -	\$ -	\$ -	\$ 4,219,282
-	-	-	-	5,201,412
-	-	-	-	5,805,936
-	-	-	-	237,874
7,271,603	-	-	-	7,271,603
-	-	-	143,651	619,649
-	-	-	-	3,300
-	-	-	-	167,210
-	-	-	73,673	79,223
-	-	-	-	154,028
-	-	-	-	200,683
-	370,000	-	-	370,000
-	330,961	-	-	330,961
-	34,950	-	-	34,950
\$ 7,271,603	\$ 735,911	\$ -	\$ 217,324	\$ 24,696,111
\$ (378,923)	\$ (13,354)	\$ -	\$ 11,103	\$ 1,251,226
\$ -	\$ 3,555,000	\$ -	\$ -	\$ 3,555,000
-	-	-	-	67,939
-	(31,035)	-	-	(31,035)
\$ -	\$ 3,523,965	\$ -	\$ -	\$ 3,591,904
\$ (378,923)	\$ 3,510,611	\$ -	\$ 11,103	\$ 4,843,130
5,110,122	151,032	51,641	36,007	13,540,996
-	-	-	-	5,055
\$ 4,731,199	\$ 3,661,643	\$ 51,641	\$ 47,110	\$ 18,389,181

**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, 2005**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 4,843,130

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	\$ 1,585,691	
Current year depreciation	(1,457,779)	127,912

In the statement of activities, only the gain or loss on the disposal of capital assets is reported, whereas, in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the cost of the capital assets disposed of. (14,738)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (508,784)

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Debt issued		
General obligation bonds	\$ (3,555,000)	
Discount on general obligation bonds	31,035	
Issuance costs on general obligation bonds	34,950	
Principal repayments		
General obligation bonds	185,000	
Lease revenue bonds	65,000	
General obligation capital notes	120,000	
East Central Solid Waste Commission liability	263,340	(2,855,675)

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	\$ (44,647)	
Change in compensated absences	(38,069)	
Change in inventories	5,055	
Current year amortization of issuance costs, discounts, and premiums	(7,880)	(85,541)

Change in net assets of governmental activities (Exhibit 2) \$ 1,506,304

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 7

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

	Private-Purpose Trust	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 132,501	\$ 926,326
Accrued interest receivable	94	-
Total Assets	\$ 132,595	\$ 926,326
<u>Liabilities</u>		
Accounts payable	\$ 541	\$ -
Due to other governments	-	926,326
Total Liabilities	\$ 541	\$ 926,326
<u>Net Assets</u>		
Net assets, restricted for other purposes	\$ 132,054	

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT 8

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

<u>Additions</u>	
Investment income	\$ 568
<u>Deductions</u>	
Payments in accordance with trust agreements	<u>541</u>
Change in net assets	\$ 27
Net Assets - January 1	<u>132,027</u>
Net Assets - December 31	<u><u>\$ 132,054</u></u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board 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 (GASB) 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 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 the primary government and its component unit. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported in a single column.

In the government-wide statement of net assets, the governmental activities column is presented: (a) on a consolidated basis and (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.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

The 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.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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.

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 as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on 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.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2005, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2005 were \$486,740.

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.

2. Receivables and Payables

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

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.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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

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. Reported inventories are equally offset by reserved fund balance to indicate that they do not constitute available spendable resources.

4. Capital Assets

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

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

Property, plant, and equipment of the County 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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Compensated Absences

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

6. Deferred Revenue

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

7. Long-Term Obligations

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

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts 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.

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, 2005.

Account balances	\$	33,251
Account balance deficits		<u>(3,929)</u>
Fund Balance	\$	<u>29,322</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

B. Excess of Expenditures over Appropriations

The following funds had expenditures in excess of budget at the function level for the year ended December 31, 2005.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund			
Current			
Public Safety	\$ 5,201,412	\$ 4,888,316	\$ 313,096
Conservation of natural resources	197,210	154,385	42,825
Special Revenue Funds			
Road and Bridge			
Current			
Highways and streets	5,959,964	5,568,964	391,000
Community Health Services			
Current			
Health	143,651	121,831	21,820

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 14,772,498
Petty cash and change funds	1,400
Departmental cash	12,297
Cash with fiscal agent	3,481,403
Statement of fiduciary net assets	
Cash and pooled investments	
Private-purpose trust	132,501
Agency funds	926,326
Total Cash and Investments	\$ 19,326,425

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2005, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities U.S. Treasury state and local government series	N/A	N/A	25.2%	Various	\$ 3,481,403
Investment pools/mutual funds MAGIC Fund	N/R	N/A	13.0%	N/A	1,791,736
Negotiable certificates of deposit	N/A	N/A	61.8%	Various	<u>8,544,000</u>
Total investments					\$ 13,817,139
Deposits					5,495,589
Petty cash and change funds					1,400
Departmental cash					<u>12,297</u>
Total Cash and Investments					<u>\$ 19,326,425</u>

N/A - Not Applicable

N/R - Not Rated

2. Receivables

Property Taxes and Special Assessments

Property taxes and special assessments, which remain unpaid at December 31, are delinquent. No allowance for uncollectible taxes/special assessments has been provided because such amounts are not expected to be material.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,155,547	\$ 114,371	\$ -	\$ 1,269,918
Capital assets depreciated				
Land improvements	\$ 508,557	\$ -	\$ -	\$ 508,557
Buildings	8,646,914	8,333	-	8,655,247
Machinery and equipment	4,920,654	840,557	404,755	5,356,456
Infrastructure	43,139,534	622,430	-	43,761,964
Total capital assets depreciated	\$ 57,215,659	\$ 1,471,320	\$ 404,755	\$ 58,282,224
Less: accumulated depreciation for				
Land improvements	\$ 214,729	\$ 20,332	\$ -	\$ 235,061
Buildings	2,900,956	195,171	-	3,096,127
Machinery and equipment	3,767,776	367,063	390,017	3,744,822
Infrastructure	9,125,219	875,213	-	10,000,432
Total accumulated depreciation	\$ 16,008,680	\$ 1,457,779	\$ 390,017	\$ 17,076,442
Total capital assets depreciated, net	\$ 41,206,979	\$ 13,541	\$ 14,738	\$ 41,205,782
Governmental Activities Capital Assets, Net	\$ 42,362,526	\$ 127,912	\$ 14,738	\$ 42,475,700

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

Governmental Activities	
General government	\$ 212,568
Public safety	87,678
Highways and streets, including depreciation of infrastructure assets	1,138,420
Human services	17,852
Health	749
Conservation of natural resources	512
Total Depreciation Expense – Governmental Activities	\$ 1,457,779

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

	Receivable	Payable
Major Governmental Funds		
General Fund	\$ 9,147	\$ -
Welfare	-	9,147
	\$ 9,147	\$ 9,147
Total Due To/From Other Funds	\$ 9,147	\$ 9,147

The interfund balances above represent fourth quarter 2005 postage and long distance phone charges for the Welfare Fund.

2. Advances From/To Other Funds

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

The General Fund has advanced a total of \$10,417 to the Ditch Special Revenue Fund over the past several years to fund needed ditch repairs. The advance will be paid off with future special assessments on the benefited properties.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

	Governmental Activities	Fiduciary Funds
Accounts	\$ 556,247	\$ 541
Salaries	324,320	-
Contracts	124,062	-
Due to other governments	94,539	926,326
Total Payables	\$ 1,099,168	\$ 926,867

2. Deferred Revenue

Deferred revenue consists of taxes and special assessments receivable, state and federal grants that are not collected soon enough after year-end to pay liabilities of the current period, and state and federal grants received but not yet earned. Deferred revenue at December 31, 2005, is summarized below by fund:

	Taxes	Special Assessments	Grants	Total
Governmental Funds				
General	\$ 247,061	\$ 14,191	\$ -	\$ 261,252
Road and Bridge	59,922	-	2,338,954	2,398,876
Welfare	101,108	-	-	101,108
Debt Service	25,052	-	-	25,052
Total	\$ 433,143	\$ 14,191	\$ 2,338,954	\$ 2,786,288
Deferred revenue				
Unavailable	\$ 433,143	\$ 14,191	\$ 2,337,116	\$ 2,784,450
Unearned	-	-	1,838	1,838
Total	\$ 433,143	\$ 14,191	\$ 2,338,954	\$ 2,786,288

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
1997 G.O. Law Enforcement Center Bonds	02/01/2019	\$150,000 to \$380,000	4.50 - 5.00	\$ 4,880,000	\$ 3,870,000
1998 HRA Lease Revenue Bonds	02/01/2019	\$55,000 to \$135,000	4.25 - 5.50	1,725,000	1,375,000
2003 G.O. Capital notes	12/01/2006	\$120,000 to \$140,000	1.40 - 1.90	385,000	125,000
2005 G.O. Law Enforcement Center Refunding Bonds	02/01/2019	\$245,000 to \$365,000	2.35 - 4.00	3,555,000	3,555,000
East Central Solid Waste Commission	*	*	*	*	483,930
Total				<u>\$ 10,545,000</u>	<u>\$ 9,408,930</u>

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

4. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds		Lease Revenue Bonds	
	Principal	Interest	Principal	Interest
2006	\$ 195,000	\$ 300,694	\$ 70,000	\$ 71,455
2007	3,675,000	207,436	70,000	68,060
2008	245,000	115,686	75,000	64,470
2009	250,000	109,683	80,000	60,555
2010	260,000	102,983	85,000	56,305
2011 - 2015	1,430,000	387,094	495,000	207,228
2016 -2020	1,370,000	110,158	500,000	56,925
Total	<u>\$ 7,425,000</u>	<u>\$ 1,333,734</u>	<u>\$ 1,375,000</u>	<u>\$ 584,998</u>

Year Ending December 31	General Obligation Capital Notes		Total	
	Principal	Interest	Principal	Interest
2006	\$ 125,000	\$ 2,375	\$ 390,000	\$ 374,524
2007	-	-	3,745,000	275,496
2008	-	-	320,000	180,156
2009	-	-	330,000	170,238
2010	-	-	345,000	159,288
2011 - 2015	-	-	1,925,000	594,322
2016 -2020	-	-	1,870,000	167,083
Total	<u>\$ 125,000</u>	<u>\$ 2,375</u>	<u>\$ 8,925,000</u>	<u>\$ 1,921,107</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 4,055,000	\$ 3,555,000	\$ 185,000	\$ 7,425,000	\$ 195,000
Lease revenue bonds	1,440,000	-	65,000	1,375,000	70,000
General obligation capital notes	245,000	-	120,000	125,000	125,000
East Central Solid Waste Commission	747,270	-	263,340	483,930	268,470
Compensated absences	1,038,841	38,069	-	1,076,910	88,304
Less: discounts on bonds	-	(31,035)	(2,069)	(28,966)	-
Long-Term Liabilities	<u>\$ 7,526,111</u>	<u>\$ 3,562,034</u>	<u>\$ 631,271</u>	<u>\$ 10,456,874</u>	<u>\$ 746,774</u>

D. Contract Commitments

The County has entered into contract commitments for expansion of the County Jail, which has not been completed as of December 31, 2005. The amount to be completed on this project is \$2,008,445.

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution and have direct contact with inmates are covered by the Public Employees Correctional Fund.

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

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

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.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

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 were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. Public Employees Police and Fire Fund members were required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

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

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2005	\$ 341,752	\$ 91,794	\$ 125,619
2004	314,985	81,085	110,214
2003	300,088	77,461	105,315

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. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. 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 coverage from the previous year or settlements in excess of insurance coverage for any of the past three years.

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

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

C. Joint Ventures

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.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

East Central Solid Waste Commission (Continued)

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, 2004 (most recent figures available):

Total Assets	<u>\$ 14,970,583</u>
Total Liabilities	\$ 6,175,824
Total Equity	<u>8,794,759</u>
Total Liabilities and Equity	<u>\$ 14,970,583</u>
Operating and nonoperating revenues	\$ 4,320,146
Operating and nonoperating expenses	<u>4,170,763</u>
Net income (loss)	\$ 149,383
Add: Net change in contributed capital	<u>953,429</u>
Change in Equity	<u>\$ 1,102,812</u>

Liabilities at December 31, 2004, 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.

\$ 4,370,000

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

East Central Solid Waste Commission (Continued)

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 \$163,036 for 2004, and \$137,444 for 2005. At December 31, 2005, Mille Lacs County has included a liability of \$483,930 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.

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 2005 was \$200,683.

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Snake River Watershed Management Board (Continued)

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.

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REQUIRED SUPPLEMENTARY INFORMATION

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 5,736,999	\$ 5,736,999	\$ 5,800,936	\$ 63,937
Special assessments	230,000	230,000	253,936	23,936
Licenses and permits	520,010	520,010	616,087	96,077
Intergovernmental	2,608,143	2,608,143	2,777,883	169,740
Charges for services	937,200	937,200	1,197,644	260,444
Fines and forfeits	40,000	40,000	92,268	52,268
Gifts and contributions	2,600	2,600	3,741	1,141
Investment income	125,000	125,000	486,740	361,740
Miscellaneous	227,021	227,021	386,904	159,883
Total Revenues	\$ 10,426,973	\$ 10,426,973	\$ 11,616,139	\$ 1,189,166
Expenditures				
Current				
General government				
Commissioners	\$ 371,628	\$ 371,628	\$ 396,270	\$ (24,642)
Courts	46,500	46,500	44,562	1,938
Law library	40,000	40,000	46,000	(6,000)
County administration	347,300	347,300	272,135	75,165
Coordinator	168,993	168,993	161,927	7,066
Auditor/treasurer	420,739	420,739	374,985	45,754
County assessor	362,092	362,092	369,517	(7,425)
Data processing	234,415	234,415	190,551	43,864
Attorney	746,360	746,360	790,394	(44,034)
Recorder	232,397	232,397	226,571	5,826
Planning and zoning	612,918	612,918	707,992	(95,074)
Buildings and plant	523,040	523,040	501,079	21,961
Veterans service officer	94,860	94,860	106,267	(11,407)
Other general government	273,979	273,979	31,032	242,947
Total general government	\$ 4,475,221	\$ 4,475,221	\$ 4,219,282	\$ 255,939
Public safety				
Sheriff	\$ 1,526,613	\$ 1,526,613	\$ 1,615,682	\$ (89,069)
Boat and water safety	68,023	68,023	52,447	15,576
Coroner	49,197	49,197	49,559	(362)
Enhanced 911	45,000	45,000	41,043	3,957
County jail	2,552,758	2,552,758	2,571,932	(19,174)
Caseload reduction	61,096	61,096	91,852	(30,756)
Probation and parole	551,061	551,061	673,486	(122,425)
Civil defense	34,568	34,568	105,411	(70,843)
Total public safety	\$ 4,888,316	\$ 4,888,316	\$ 5,201,412	\$ (313,096)

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 1
(Continued)

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste management	\$ 138,389	\$ 138,389	\$ 137,444	\$ 945
SCORE	95,000	95,000	91,808	3,192
Hazardous waste	7,000	7,000	8,622	(1,622)
Total sanitation	\$ 240,389	\$ 240,389	\$ 237,874	\$ 2,515
Health				
Nursing service	\$ 541,922	\$ 541,922	\$ 475,998	\$ 65,924
Culture and recreation				
Historical society	\$ 3,300	\$ 3,300	\$ 3,300	\$ -
Conservation of natural resources				
County extension	\$ 94,336	\$ 94,336	\$ 87,253	\$ 7,083
Soil and water conservation	45,670	45,670	65,578	(19,908)
Agricultural society	10,000	10,000	10,000	-
Other	4,379	4,379	4,379	-
Total conservation of natural resources	\$ 154,385	\$ 154,385	\$ 167,210	\$ (12,825)
Economic development				
Community development	\$ 8,850	\$ 8,850	\$ 5,550	\$ 3,300
Intergovernmental				
Culture and recreation				
Library	\$ 200,682	\$ 200,682	\$ 200,683	\$ (1)
Total Expenditures	\$ 10,513,065	\$ 10,513,065	\$ 10,511,309	\$ 1,756
Excess of Revenues Over (Under) Expenditures	\$ (86,092)	\$ (86,092)	\$ 1,104,830	\$ 1,190,922
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	3,000	3,000	12,728	9,728
Net Change in Fund Balance	\$ (83,092)	\$ (83,092)	\$ 1,117,558	\$ 1,200,650
Fund Balance - January 1	7,270,608	7,270,608	7,270,608	-
Fund Balance - December 31	\$ 7,187,516	\$ 7,187,516	\$ 8,388,166	\$ 1,200,650

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,811,444	\$ 1,811,444	\$ 1,782,724	\$ (28,720)
Licenses and permits	-	-	16,450	16,450
Intergovernmental	3,705,020	3,705,020	4,586,008	880,988
Charges for services	30,500	30,500	91,119	60,619
Miscellaneous	22,000	22,000	11,233	(10,767)
Total Revenues	\$ 5,568,964	\$ 5,568,964	\$ 6,487,534	\$ 918,570
Expenditures				
Current				
Highways and streets				
Administration	\$ 453,694	\$ 453,694	\$ 517,507	\$ (63,813)
Maintenance	1,094,102	1,094,102	962,344	131,758
Construction	2,731,269	2,731,269	3,141,440	(410,171)
Equipment maintenance and shops	1,135,871	1,135,871	1,184,645	(48,774)
Total highways and streets	\$ 5,414,936	\$ 5,414,936	\$ 5,805,936	\$ (391,000)
Intergovernmental				
Highways and streets	154,028	154,028	154,028	-
Total Expenditures	\$ 5,568,964	\$ 5,568,964	\$ 5,959,964	\$ (391,000)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 527,570	\$ 527,570
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	55,211	55,211
Net Change in Fund Balance	\$ -	\$ -	\$ 582,781	\$ 582,781
Fund Balance - January 1	921,586	921,586	921,586	-
Increase (decrease) in reserved for inventories	-	-	5,055	5,055
Fund Balance - December 31	\$ 921,586	\$ 921,586	\$ 1,509,422	\$ 587,836

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,131,488	\$ 2,131,488	\$ 2,131,009	\$ (479)
Intergovernmental	4,147,055	4,260,036	4,204,806	(55,230)
Charges for services	44,000	44,000	53,016	9,016
Miscellaneous	598,004	598,004	503,849	(94,155)
Total Revenues	\$ 6,920,547	\$ 7,033,528	\$ 6,892,680	\$ (140,848)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,571,048	\$ 1,571,048	\$ 1,532,983	\$ 38,065
Social services	5,649,799	5,796,163	5,738,620	57,543
Total Expenditures	\$ 7,220,847	\$ 7,367,211	\$ 7,271,603	\$ 95,608
Net Change in Fund Balance	\$ (300,300)	\$ (333,683)	\$ (378,923)	\$ (45,240)
Fund Balance - January 1	5,110,122	5,110,122	5,110,122	-
Fund Balance - December 31	\$ 4,809,822	\$ 4,776,439	\$ 4,731,199	\$ (45,240)

**MILLE LACS COUNTY
MILACA, MINNESOTA**

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

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except 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 major governmental funds had expenditures in excess of budget at the function level for the year ended December 31, 2005:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund			
Current			
Public safety	\$ 5,201,412	\$ 4,888,316	\$ 313,096
Conservation of natural resources	197,210	154,385	12,825
Road and Bridge Special Revenue Fund			
Current			
Highways and streets	5,959,964	5,568,964	391,000

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SUPPLEMENTARY INFORMATION

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

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**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 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.

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

Statement 1

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

	Ditch	Special Revenue Community Health Services	Housing and Redevelopment Authority	Total Nonmajor Governmental Funds
<u>Assets</u>				
Cash and pooled investments	\$ 39,739	\$ 3,049	\$ 8,902	\$ 51,690
Due from other governments	-	11,220	-	11,220
Total Assets	<u>\$ 39,739</u>	<u>\$ 14,269</u>	<u>\$ 8,902</u>	<u>\$ 62,910</u>
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ -	\$ 401	\$ -	\$ 401
Salaries payable	-	4,979	-	4,979
Due to other governments	-	3	-	3
Advances from other funds	10,417	-	-	10,417
Total Liabilities	\$ 10,417	\$ 5,383	\$ -	\$ 15,800
Fund Balances				
Unreserved Undesignated	29,322	8,886	8,902	47,110
Total Liabilities and Fund Balances	<u>\$ 39,739</u>	<u>\$ 14,269</u>	<u>\$ 8,902</u>	<u>\$ 62,910</u>

**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, 2005**

	<u>Ditch</u>	<u>Special Revenue Community Health Services</u>	<u>Housing and Redevelopment Authority</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues				
Taxes	\$ -	\$ -	\$ 73,673	\$ 73,673
Special assessments	7,425	-	-	7,425
Intergovernmental	-	136,299	-	136,299
Charges for services	-	8,714	-	8,714
Miscellaneous	-	2,316	-	2,316
Total Revenues	\$ 7,425	\$ 147,329	\$ 73,673	\$ 228,427
Expenditures				
Current				
Health	\$ -	\$ 143,651	\$ -	\$ 143,651
Economic development	-	-	73,673	73,673
Total Expenditures	\$ -	\$ 143,651	\$ 73,673	\$ 217,324
Net Change in Fund Balances	\$ 7,425	\$ 3,678	\$ -	\$ 11,103
Fund Balances - January 1	21,897	5,208	8,902	36,007
Fund Balances - December 31	\$ 29,322	\$ 8,886	\$ 8,902	\$ 47,110

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 4

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 118,581	\$ 118,581	\$ 136,299	\$ 17,718
Charges for services	2,000	2,000	8,714	6,714
Miscellaneous	1,500	1,500	2,316	816
Total Revenues	\$ 122,081	\$ 122,081	\$ 147,329	\$ 25,248
Expenditures				
Current				
Health				
Nursing service	121,831	121,831	143,651	(21,820)
Net Change in Fund Balance	\$ 250	\$ 250	\$ 3,678	\$ 3,428
Fund Balance - January 1	5,208	5,208	5,208	-
Fund Balance - December 31	\$ 5,458	\$ 5,458	\$ 8,886	\$ 3,428

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
HOUSING AND REDEVELOPMENT AUTHORITY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 81,722	\$ 81,722	\$ 73,673	\$ (8,049)
Expenditures				
Current				
Economic development	81,722	81,722	73,673	8,049
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.

North Central Drug Task Force - to account for the receipts and disbursements of the North Central Drug Task Force.

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

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>REGION SEVEN</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 27,371	\$ 27,371	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 27,371	\$ 27,371	\$ -
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 3,131,349	\$ 3,131,349	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 3,131,349	\$ 3,131,349	\$ -
 <u>STATE AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 5,370	\$ 1,622,130	\$ 1,626,611	\$ 889
<u>Liabilities</u>				
Due to other governments	\$ 5,370	\$ 1,622,130	\$ 1,626,611	\$ 889

**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, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 150,218	\$ 22,562,934	\$ 22,525,776	\$ 187,376
<u>Liabilities</u>				
Due to other governments	\$ 150,218	\$ 22,562,934	\$ 22,525,776	\$ 187,376
 <u>COUNTY AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 9,737	\$ 192,445	\$ 195,270	\$ 6,912
<u>Liabilities</u>				
Due to other governments	\$ 9,737	\$ 192,445	\$ 195,270	\$ 6,912
 <u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 4,597,939	\$ 4,597,939	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 4,597,939	\$ 4,597,939	\$ -

**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, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>NORTH CENTRAL DRUG TASK FORCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 80,112	\$ 52,390	\$ 27,722
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 80,112	\$ 52,390	\$ 27,722
 <u>FAMILY TIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 658,656	\$ 554,885	\$ 510,114	\$ 703,427
<u>Liabilities</u>				
Due to other governments	\$ 658,656	\$ 554,885	\$ 510,114	\$ 703,427
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 823,981	\$ 32,769,165	\$ 32,666,820	\$ 926,326
<u>Liabilities</u>				
Due to other governments	\$ 823,981	\$ 32,769,165	\$ 32,666,820	\$ 926,326

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OTHER SCHEDULES

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 6

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

	<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>\$ 1,920,759</u>
Savings accounts			
First National Bank of Milaca	Variable	Continuous	\$ 217,300
Bremer Bank	Variable	Continuous	<u>1,166,470</u>
Total savings accounts			<u>\$ 1,383,770</u>
Certificates of deposit			
First National Bank of Milaca	3.70	Various	\$ 10,000
Peoples Bank of Commerce	1.45	Various	1,094,053
Bremer Bank	2.8 to 4.5	Various	<u>1,062,142</u>
Total certificates of deposit			<u>\$ 2,166,195</u>
Negotiable certificates of deposit			
AmBac Securities, Inc.	1.15 to 1.75	Various	<u>\$ 8,544,000</u>
U.S. government securities			
US Bank	Variable	Various	<u>\$ 3,481,403</u>
MAGIC Fund			
AmBac Securities, Inc.	Variable	Continuous	<u>\$ 1,791,736</u>
Total pooled deposits and investments			<u>\$ 19,287,863</u>
Private-Purpose Trust Fund Investments			
Certificates of deposit			
First National Bank of Milaca	2.00 to 2.10	Various	\$ 13,985
Bremer Bank	1.35 to 1.65	Various	4,110
Peoples Bank of Commerce	1.75 to 1.87	Various	<u>6,770</u>
Total Private-Purpose Trust Fund investments			<u>\$ 24,865</u>
Total Deposits and Investments			<u><u>\$ 19,312,728</u></u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 7

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

	2004		2005		2006	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Tax Capacity						
Real property	\$ 13,072,147		\$ 15,279,147		\$ 17,615,300	
Personal property	267,235		285,924		268,392	
Total Tax Capacity	<u>\$ 13,339,382</u>		<u>\$ 15,565,071</u>		<u>\$ 17,883,692</u>	
Taxes Levied for County Purposes						
General	\$ 7,232,719	51.535	\$ 7,326,105	42.421	\$ 7,901,922	40.123
Road and Bridge	761,039	6.534	2,104,219	13.460	1,844,562	10.224
Welfare	2,877,006	20.048	2,676,101	15.838	3,112,588	16.304
Debt Service	696,466	4.190	669,487	4.429	678,257	3.907
Total Levy for County Purposes	<u>\$ 11,567,230</u>	<u>82.307</u>	<u>\$ 12,775,912</u>	<u>76.148</u>	<u>\$ 13,537,329</u>	<u>70.558</u>
Less Homestead Credits Payable by State	<u>(912,363)</u>		<u>(1,263,467)</u>		<u>(1,286,206)</u>	
Net Levy Certified to State	<u>\$ 10,654,867</u>		<u>\$ 11,512,445</u>		<u>\$ 12,251,123</u>	
Less Market Value Credits Payable by State	<u>(1,213,678)</u>		<u>(1,253,592)</u>		<u>(1,212,039)</u>	
Net Levy for County Purposes	<u>\$ 9,441,189</u>		<u>\$ 10,258,853</u>		<u>\$ 11,039,084</u>	
Percentage of Tax Collections for All Purposes	97.13%		96.53%		-	

MILLE LACS COUNTY
MILACA, MINNESOTA

Schedule 8

BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2005

	Assets	Liabilities		Total
	Cash and Pooled Investments	Advances From Other Funds	Fund Balance Undesignated	Liabilities and Fund Balance
County Ditch				
2	\$ 3,417	\$ 3,534	\$ (117)	\$ 3,417
3	7,584	-	7,584	7,584
4	16,063	-	16,063	16,063
5	4,790	-	4,790	4,790
14	7,885	3,071	4,814	7,885
Joint Ditch				
3	-	3,812	(3,812)	-
Total	\$ 39,739	\$ 10,417	\$ 29,322	\$ 39,739

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 9

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

Shared Revenue

State

Highway users tax	\$	4,288,315
County program aid		1,263,467
Market value credit		1,264,035
PERA rate reimbursement		30,786
Disparity reduction aid		24,903
Police aid		81,085
Indian casino aid		65,378
Enhanced 911		74,732
		74,732

Total Shared Revenue **\$ 7,092,701**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	1,808,214
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Payments

Local

Payments in lieu of taxes	\$	84,487
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Grants

State

Minnesota Department of		
Corrections	\$	184,465
Public Safety		59,762
Health		104,284
Natural Resources		18,064
Human Services		1,304,168
Water and Soil Resources Board		59,847
Office of Environmental Assistance		27,527
Pollution Control Agency		28,040
Peace Officer Standards and Training Board		7,050
		7,050

Total State **\$ 1,793,207**

Federal Department

Agriculture	\$	80,519
Justice		46,703
Transportation		30,675
Health and Human Services		781,299
Homeland Security		54,711
Environmental Protection Agency		7,436
		7,436

Total Federal **\$ 1,001,343**

Total State and Federal Grants **\$ 2,794,550**

Total Intergovernmental Revenue **\$ 11,779,952**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS 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.

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.

PREVIOUSLY REPORTED ITEM RESOLVED

Computer Passwords (04-2)

County employees needing computer access created passwords when they were initially provided access to the system. The County had no written policies regarding password confidentiality, and there was no requirement to periodically change passwords after they had been initially assigned.

Resolution

The County has adopted a written information systems policy that includes instructions on computer password confidentiality and requires passwords to be changed every 120 days.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

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.

Schedule 10
(Continued)

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 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.

PREVIOUSLY REPORTED ITEM RESOLVED

Fund Balance Deficits – Ditch Special Revenue Fund (98-5)

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.

Resolution

The County has levied sufficiently to recover the costs and, as the assessments become available to be recognized as revenue, the fund balance deficits will be eliminated.

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

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

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

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

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

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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Mille Lacs County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mille Lacs County as of and for the year ended December 31, 2005, and have issued our report thereon dated September 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 and 04-1.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 of County Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: September 20, 2006



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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, 2005. 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, 2005.

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 the governmental activities, each major fund, and the aggregate remaining fund information of Mille Lacs County as of and for the year ended December 31, 2005, and have issued our report thereon dated September 20, 2006. 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 of County Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: September 20, 2006

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 11

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	\$ 80,519
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Juvenile Accountability Incentive Block Grant	16.523	\$ 1,217
Crime Victim Assistance	16.575	25,762
Local Law Enforcement Block Grant Program	16.592	15,600
Enforcing Underage Drinking Laws Program	16.727	4,124
Total U.S. Department of Justice		\$ 46,703
U.S. Department of Transportation		
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	\$ 20,818
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	9,857
Total U.S. Department of Transportation		\$ 30,675
U.S. Environmental Protection Agency		
Passed Through Minnesota Department of Health State Indoor Radon Grant	66.032	\$ 7,436
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 23,077
Temporary Assistance for Needy Families	93.558	280,819
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	16,937
Child Welfare Services - State Grants	93.645	1,897
Foster Care Title IV-E	93.658	145,949
Social Services Block Grant Title XX	93.667	209,601
Chafee Foster Care Independence Program	93.674	9,481
State Children's Insurance Program	93.767	174
Community Mental Health Services Block Grant	93.958	10,430
Passed Through Minnesota Department of Health Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	28,916
Temporary Assistance for Needy Families	93.558	22,003
Maternal and Child Health Services Block Grant	93.994	32,015
Total U.S. Department of Health and Human Services		\$ 781,299

**MILLE LACS COUNTY
MILACA, MINNESOTA**

Schedule 11
(Continued)

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
State Domestic Preparedness Equipment Support Grant	97.004	\$ 38,846
Homeland Security Grant Program	97.067	11,522
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	4,343
Total U.S. Department of Homeland Security		\$ 54,711
Total Federal Awards		\$ 1,001,343

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 2005, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.