

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

GRANT COUNTY
ELBOW LAKE, MINNESOTA

YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

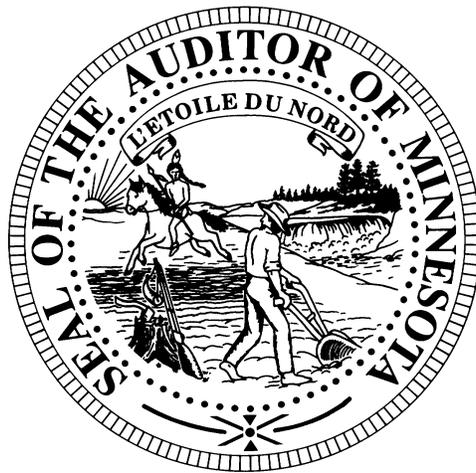
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Year Ended December 31, 2005



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

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

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ELBOW LAKE, MINNESOTA**

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2005**

Office	Name	Term Expires
Commissioners		
1st District	Todd Schneeberger	January 2009
2nd District	Ronald Woltjer*	January 2007
3rd District	Jennes Swenson	January 2009
4th District	Richard S. Kastner	January 2007
5th District	Vernell Wagner	January 2009
Officers		
Elected		
Attorney	Lyndon Kratochwill	January 2007
Auditor	Chad Van Santen	January 2007
Coroner	Larry Rapp, D. O.	January 2007
County Recorder	Patti Nordby	January 2007
Sheriff	Dwight Walvatne	January 2007
Treasurer	Patricia Soberg	January 2007
Appointed		
Assessor	Susan Lohse	January 2008
Highway Engineer	Luke Hagen	May 2007
Veterans Service Officer	Ardell Bergrud	Indefinite
Social Services Board		
Member	Todd Schneeberger	January 2009
Member	Richard S. Kastner	January 2007
Member	Jennes Swenson	January 2009
Vice Chair	Ronald Woltjer	January 2007
Member	Vernell Wagner	January 2009
Director (Board Chair)	Joyce Pesch	Indefinite

*Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Grant County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Grant 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 Grant County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Housing and Redevelopment Authority (HRA) of Grant County, a discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the HRA of Grant County, is based solely upon the report of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

Grant County has not updated or made a physical count of its hospital office furniture and equipment and machinery and automotive equipment capital asset inventory for a number of years. Grant County's records do not provide complete accounting control over quantities, costs, and depreciation of its hospital capital assets and, therefore, do not permit the application of auditing procedures over these assets.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the Grant County Hospital capital assets, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Grant County as of December 31, 2005, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the discretely presented component unit, each major fund, and the aggregate remaining fund information for Grant 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 other required supplementary information, as 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise Grant 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 a report dated November 14, 2006, on our consideration of Grant 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. It does not include the HRA of Grant County, which was audited by other auditors.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 14, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

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

INTRODUCTION

Grant 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 Grant County's financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$18,129,187, of which Grant County has invested \$12,998,044 in capital assets, net of related debt; \$182,511 is restricted to specific purposes/uses by the County.
- The net cost of Grant County's governmental activities for the year ended December 31, 2005, was \$4,110,666; the net cost was funded by general revenues and other items totaling \$4,149,946.

OVERVIEW OF THE FINANCIAL STATEMENTS

Grant County's MD&A 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)

Grant County presents two government-wide financial statements: the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the County as a whole and present a longer-term view of Grant County’s finances. The County’s fund financial statements follow the government-wide financial statements. For governmental funds, these statements tell how Grant County financed 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 Grant County as a whole and about its activities in a way that helps the reader determine whether Grant 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 Grant County’s current year revenues and expenses, regardless of when the County receives the revenue or pays the expense, 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 Grant 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 Grant County.

- Governmental activities--Grant 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. Grant County finances the majority of these activities with local property taxes, state-paid aids, fees, charges for services, and federal and state grants.
- Component unit--Grant County includes a separate legal entity in its report, the Housing and Redevelopment Authority of Grant County. This entity is presented in a separate column. Although legally separate, the component unit is important because the County is financially accountable for it.

Fund Financial Statements

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

THE COUNTY AS A WHOLE

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

Table 1
Net Assets

	Governmental Activities	
	2005	2004
Assets		
Current and other assets	\$ 5,855,295	\$ 5,608,179
Capital assets, net of accumulated depreciation	13,138,044	13,490,511
Total Assets	\$ 18,993,339	\$ 19,098,690
Liabilities		
Current liabilities	\$ 385,690	\$ 427,413
Long-term liabilities	478,462	581,370
Total Liabilities	\$ 864,152	\$ 1,008,783
Net Assets		
Invested in capital assets, net of related debt	\$ 12,998,044	\$ 13,312,616
Restricted	182,511	113,849
Unrestricted	4,948,632	4,663,442
Total Net Assets	\$ 18,129,187	\$ 18,089,907

Grant County's total net assets for the year ended December 31, 2005, total \$18,129,187. The governmental activities' unrestricted net assets, totaling \$4,948,632, are available to finance the day-to-day operations of the governmental activities of Grant County.

Table 2
Changes in Net Assets

	Governmental Activities	
	2005	2004
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 1,280,068	\$ 1,209,043
Operating grants and contributions	4,220,261	4,013,487
Capital grants and contributions	8,451	61,428
General revenues		
Property taxes	3,104,656	2,621,887
Other taxes	35,050	32,599
Grants and contributions not restricted to specific programs	958,097	844,339
Unrestricted investment income	52,143	47,176
Total Revenues	\$ 9,658,726	\$ 8,829,959

	Governmental Activities	
	2005	2004
Expenses		
General government	\$ 1,879,928	\$ 1,371,841
Public safety	1,004,612	931,238
Highways and streets	3,062,951	2,702,539
Sanitation	551,132	510,076
Human services	2,639,585	2,241,129
Health	145,030	381,135
Culture and recreation	79,941	61,594
Conservation of natural resources	215,577	183,734
Economic development	35,000	35,000
Interest	5,690	9,639
Total Expenses	<u>\$ 9,619,446</u>	<u>\$ 8,427,925</u>
Increase in Net Assets	\$ 39,280	\$ 402,034
Net Assets - January 1	<u>18,089,907</u>	<u>17,687,873</u>
Net Assets – December 31	<u>\$ 18,129,187</u>	<u>\$ 18,089,907</u>

Governmental Activities

Revenues for Grant County’s governmental activities for the year ended December 31, 2005, were \$9,658,726. The County’s cost for all governmental activities for the year ended December 31, 2005, was \$9,619,446. The net assets for the County’s governmental activities increased by \$39,280 in 2005.

As shown in the Statement of Activities, the amount that Grant County taxpayers ultimately financed for these governmental activities through local property taxation was \$3,104,656, because \$5,508,780 of the costs were paid by grants and contributions received for those programs and by those who directly benefited from the programs, and \$958,097 was paid by other governments and organizations that provided additional grants and contributions. Grant County paid for the remaining “public benefit” portion of governmental activities with \$87,193 in other revenues, such as investment income, mortgage registry tax, and state deed tax.

County Revenues for Fiscal Year 2005

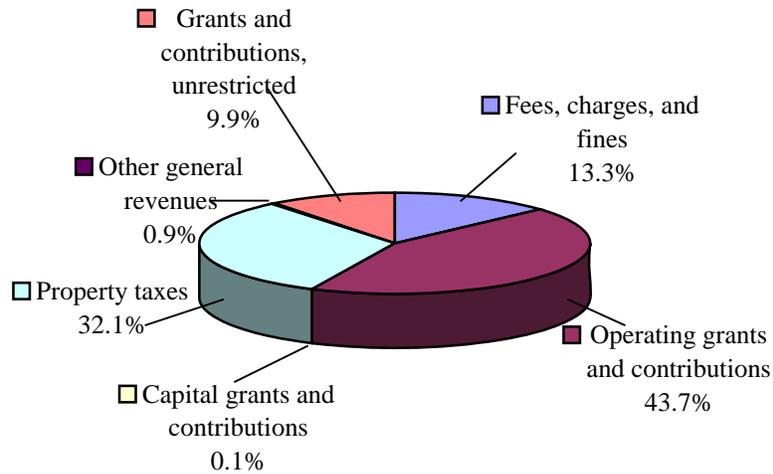
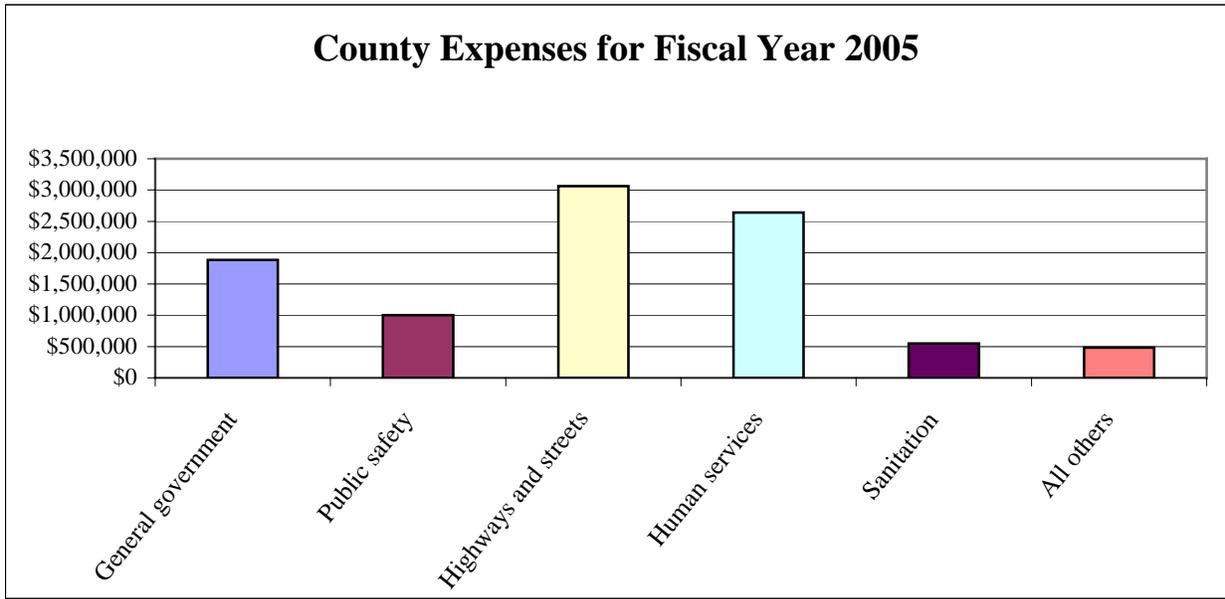


Table 3 presents the cost of each of Grant County’s five largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden placed on Grant County’s taxpayers by each of these functions.

**Table 3
Governmental Activities**

	Total Cost of Services	Net Cost of Services
Program expenses		
General government	\$ 1,879,928	\$ 1,625,401
Public safety	1,004,612	683,339
Highways and streets	3,062,951	688,744
Sanitation	551,132	75,442
Human services	2,639,585	680,595
All others	481,238	357,145
Total Program Expenses	\$ 9,619,446	\$ 4,110,666



THE COUNTY'S FUNDS

As Grant County completed the year, its governmental funds, as presented in the Balance Sheet, reported a combined fund balance of \$2,645,110.

General Fund Budgetary Highlights

The Grant County Board of Commissioners, over the course of a budget year, may amend/revise the County's General Fund budget; however, in 2005, the County Board of Commissioners made no changes to the adopted budget. If the County Board of Commissioners had made changes to the budget as originally adopted, these budget amendments/revisions would have fallen into one of three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts.

In the General Fund, the actual revenues were \$268,333 more than expected revenues, and actual expenditures were \$238,913 more than budgeted expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, Grant County had \$13,138,044 invested in a broad range of capital assets, net of depreciation. This investment in capital assets includes land, buildings, highways and streets, and equipment (see Table 4).

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

	2005	2004
Land and rights-of-way	\$ 559,036	\$ 559,036
Buildings	1,327,019	1,396,247
Office furniture and equipment	29,717	33,006
Machinery and automotive equipment	711,973	640,999
Infrastructure	10,510,299	10,861,223
Totals	<u>\$ 13,138,044</u>	<u>\$ 13,490,511</u>

Long-Term Debt

At December 31, 2005, Grant County had \$140,000 in bonds outstanding, compared with \$280,000 as of December 31, 2004--a decrease of 50 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	2005	2004
Bonds Payable		
1999 G.O. Ditch Bonds	\$ -	\$ 70,000
2004 G.O. Capital Improvement Bonds	140,000	210,000
Totals	<u>\$ 140,000</u>	<u>\$ 280,000</u>

Grant County maintains an “A3” rating from Moody’s Investor Services. Other long-term obligations include compensated absences. Grant 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 2006 budget and tax rates.

- For the upcoming fiscal year, the State of Minnesota has projected a budget surplus. Major revenue sources for the County are state-paid aids, credits, and grants. Should the State of Minnesota make significant changes to these revenues, it would have a significant impact on next year’s budget.
- Land development and regulation issues affected the budget and tax rates.
- Reviewing revenue sources and considering cost-effective and efficient means for the delivery of Grant County programs and services will influence the development of future budgets.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

Grant County's financial report provides citizens, taxpayers, customers, investors, and creditors with a general overview of Grant 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 Chad Van Santen, Grant County Auditor, (218-685-4520), Grant County Courthouse, 10 Second Street N.E., P. O. Box 1007, Elbow Lake, Minnesota 56531-1007.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT 1

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

	Primary Government Governmental Activities	Component Unit Housing and Redevelopment Authority of Grant County
<u>Assets</u>		
Cash and pooled investments	\$ 2,624,365	\$ 496,686
Petty cash and change funds	2,000	-
Taxes receivable		
Delinquent	92,365	-
Special assessments receivable		
Delinquent	250	-
Accounts receivable	23,584	2,754
Accrued interest receivable	3,809	-
Due from other governments	2,949,811	-
Advances to other governments	30,000	-
Inventories	125,938	-
Prepaid items	-	10,898
Deferred charges	3,173	-
Restricted cash, tenant security deposits	-	17,300
Capital assets		
Non-depreciable	559,036	-
Depreciable - net of accumulated depreciation	12,579,008	2,581,474
Total Assets	\$ 18,993,339	\$ 3,109,112
<u>Liabilities</u>		
Accounts payable	\$ 184,508	\$ 41,715
Salaries payable	85,456	-
Due to other governments	73,853	17,415
Accrued interest payable	-	4,781
Unearned revenue	41,873	-
Security deposits payable from restricted assets	-	17,300
Long-term liabilities		
Due within one year	96,600	28,532
Due in more than one year	381,862	1,181,708
Total Liabilities	\$ 864,152	\$ 1,291,451
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 12,998,044	\$ 1,481,474
Restricted for		
General government	59,511	-
Public safety	123,000	-
Unrestricted	4,948,632	336,187
Total Net Assets	\$ 18,129,187	\$ 1,817,661

The notes to the financial statements are an integral part of this statement.

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EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Component Unit Housing and Redevelopment Authority of Grant County
\$ 24,677	\$ 8,451	\$ (1,625,401)	
171,984	-	(683,339)	
2,281,753	-	(688,744)	
-	-	(75,442)	
1,650,691	-	(680,595)	
-	-	(145,030)	
41,172	-	(38,769)	
49,984	-	(132,656)	
-	-	(35,000)	
-	-	(5,690)	
\$ 4,220,261	\$ 8,451	\$ (4,110,666)	
\$ 208,793	\$ 70,462		\$ (66,505)
		\$ 3,104,656	\$ 35,000
		-	22,316
		35,050	-
		958,097	-
		52,143	8,930
		-	4,277
		\$ 4,149,946	\$ 70,523
		\$ 39,280	\$ 4,018
		18,089,907	1,813,643
		\$ 18,129,187	\$ 1,817,661

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT 3

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 1,044,834	\$ 388,810	\$ 665,560	\$ 525,161	\$ 2,624,365
Petty cash and change funds	1,875	100	25	-	2,000
Taxes receivable					
Delinquent	54,544	16,796	15,943	5,082	92,365
Special assessments receivable					
Delinquent	-	-	-	250	250
Accounts receivable	19,621	-	1,920	2,043	23,584
Accrued interest receivable	3,595	-	-	214	3,809
Due from other funds	184,154	62	-	1,681	185,897
Due from other governments	27,426	2,692,492	210,535	19,358	2,949,811
Inventories	-	125,938	-	-	125,938
Advances to other governments	-	-	30,000	-	30,000
Total Assets	\$ 1,336,049	\$ 3,224,198	\$ 923,983	\$ 553,789	\$ 6,038,019
<u>Liabilities and Fund Balance</u>					
Liabilities					
Accounts payable	\$ 52,086	\$ 33,726	\$ 70,914	\$ 27,782	\$ 184,508
Salaries payable	31,798	43,828	9,830	-	85,456
Due to other funds	-	-	23,180	162,717	185,897
Due to other governments	42,107	1,961	19,608	10,177	73,853
Deferred revenue - unavailable	47,232	2,688,358	70,299	15,433	2,821,322
Deferred revenue - unearned	-	-	41,873	-	41,873
Total Liabilities	\$ 173,223	\$ 2,767,873	\$ 235,704	\$ 216,109	\$ 3,392,909
Fund Balance					
Reserved for					
Inventories	\$ -	\$ 125,938	\$ -	\$ -	\$ 125,938
Advances to other governments	-	-	30,000	-	30,000
Sheriff's contingency	1,422	-	-	-	1,422
Law library	31,490	-	-	-	31,490
Enhanced 911	83,556	-	-	-	83,556
Recorder's equipment	28,021	-	-	-	28,021
DUI forfeitures	37,410	-	-	-	37,410
DARE fund	612	-	-	-	612
Unreserved					
Designated for cash flows	800,000	330,387	500,000	-	1,630,387
Undesignated	180,315	-	158,279	-	338,594
Unreserved, reported in nonmajor					
Special revenue funds	-	-	-	337,680	337,680
Total Fund Balance	\$ 1,162,826	\$ 456,325	\$ 688,279	\$ 337,680	\$ 2,645,110
Total Liabilities and Fund Balance	\$ 1,336,049	\$ 3,224,198	\$ 923,983	\$ 553,789	\$ 6,038,019

The notes to the financial statements are an integral part of this statement.

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**GRANT COUNTY
ELBOW LAKE, 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)	\$	2,645,110
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.		13,138,044
Deferred charges are not available to pay current expenditures and, therefore, are not reported in the governmental funds.		3,173
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.		2,821,322
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	\$ (140,000)	
Compensated absences	(338,462)	(478,462)
	\$	18,129,187
Net assets of governmental activities (Exhibit 1)		<u>18,129,187</u>

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT 5

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues					
Taxes	\$ 1,973,953	\$ 580,686	\$ 538,801	\$ -	\$ 3,093,440
Special assessments	-	-	-	103,962	103,962
Licenses and permits	1,402	-	-	201	1,603
Intergovernmental	886,702	1,866,093	1,775,135	142,575	4,670,505
Charges for services	300,971	74,349	48,083	469,892	893,295
Fines and forfeits	703	-	-	-	703
Investment income	47,608	-	-	4,535	52,143
Miscellaneous	144,274	18,105	194,001	725	357,105
Total Revenues	\$ 3,355,613	\$ 2,539,233	\$ 2,556,020	\$ 721,890	\$ 9,172,756
Expenditures					
Current					
General government	\$ 1,806,131	\$ -	\$ -	\$ -	\$ 1,806,131
Public safety	1,015,944	-	-	-	1,015,944
Highways and streets	-	2,626,808	-	-	2,626,808
Sanitation	-	-	-	551,132	551,132
Human services	-	-	2,533,448	155,784	2,689,232
Health	145,030	-	-	-	145,030
Culture and recreation	79,941	-	-	-	79,941
Conservation of natural resources	187,295	-	-	28,282	215,577
Economic development	35,000	-	-	-	35,000
Intergovernmental					
Highways and streets	-	155,698	-	-	155,698
Debt service					
Principal	70,000	-	-	70,000	140,000
Interest	3,815	-	-	1,733	5,548
Total Expenditures	\$ 3,343,156	\$ 2,782,506	\$ 2,533,448	\$ 806,931	\$ 9,466,041
Excess of Revenues Over (Under) Expenditures	\$ 12,457	\$ (243,273)	\$ 22,572	\$ (85,041)	\$ (293,285)
Other Financing Sources (Uses)					
Transfers in	\$ 34,644	\$ -	\$ -	\$ -	\$ 34,644
Transfers out	-	-	-	(34,644)	(34,644)
Total Other Financing Sources (Uses)	\$ 34,644	\$ -	\$ -	\$ (34,644)	\$ -
Net Change in Fund Balance	\$ 47,101	\$ (243,273)	\$ 22,572	\$ (119,685)	\$ (293,285)
Fund Balance - January 1	1,115,725	679,568	665,707	457,365	2,918,365
Increase (decrease) in reserved for inventories	-	20,030	-	-	20,030
Fund Balance - December 31	\$ 1,162,826	\$ 456,325	\$ 688,279	\$ 337,680	\$ 2,645,110

The notes to the financial statements are an integral part of this statement.

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE 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) \$ (293,285)

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

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

Deferred revenue - December 31	\$ 2,821,322	
Deferred revenue - January 1	(2,259,086)	562,236

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

Expenditures for general capital assets and infrastructure	\$ 590,023	
Net book value of disposed assets	(8,690)	
Current year depreciation	(933,800)	(352,467)

The issuance of long-term debt 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. Also, governmental funds report the effect of issuance costs and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal repayments	\$ 140,000	
Amortization of issuance costs	(1,586)	138,414

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

Change in accrued interest payable	\$ 1,444	
Change in compensated absences	(37,092)	
Change in inventories	20,030	(15,618)

Change in net assets of governmental activities (Exhibit 2) \$ 39,280

FIDUCIARY FUNDS

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT 7

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

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	\$ 111,440
Due from other governments	<u>64</u>
Total Assets	<u>\$ 111,504</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 111,504</u>

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**GRANT COUNTY
ELBOW LAKE, 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

Grant County was established March 6, 1868, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Grant County (primary government) and its component unit for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Discretely Presented Component Unit

The Housing and Redevelopment Authority (HRA) of Grant County is a component unit of Grant County and is reported in a separate column in the County's government-wide financial statements to emphasize that the HRA is legally separate from Grant County. The HRA operates as a local governmental unit for the purpose of providing housing and redevelopment services to Grant County. The governing body consists of a five-member Board of Commissioners appointed by the Grant County Board of Commissioners to serve five-year terms. The financial statements included are as of and for the year ended December 31, 2005.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Unit (Continued)

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
The HRA of Grant County provides services pursuant to Minn. Stat. §§ 469.001-.047.	The County appoints members, and the HRA is a financial burden.	Grant County Coordinator's Office P. O. Box 1007 Elbow Lake, Minnesota 56531

Joint Ventures

The County participates in several joint ventures described in Note 4.C. The County also participates in jointly-governed organizations described in Note 4.D.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government and its component 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.

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities 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

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

Additionally, the County reports the following fund types:

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.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first 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 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 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 \$52,143.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

Grant 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).

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.

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

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

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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. Inventories at the government-wide level are recorded as expenses when consumed.

4. Capital Assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings and building improvements	30 - 40
Office furniture and equipment	3 - 15
Machinery and automotive equipment	3 - 20
Infrastructure	25 - 75

**GRANT COUNTY
ELBOW LAKE, 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 vacation 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.

**GRANT COUNTY
ELBOW LAKE, 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 not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans subject to change.

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. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 2,624,365
Petty cash and change funds	2,000
Statement of fiduciary net assets	
Cash and pooled investments	<u>111,440</u>
Total Cash and Investments	<u>\$ 2,737,805</u>

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

2. 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. The County's deposits in banks at December 31, 2005, were entirely covered by federal depository insurance and collateral in accordance with Minnesota statutes.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

2. 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.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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.

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.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Percent of Portfolio	Maturity Date	
U.S. Government Securities/Bonds					
Federal Home Loan Bank	NR	N/A	12.0%	07/13/07	\$ 197,688
Federal National Mortgage Association	NR	N/A	6.0%	11/23/07	98,938
Federal Home Loan Mortgage Corporation	NR	N/A	<5.0%	04/01/09	703
Total U.S. Government Securities/Bonds					\$ 297,329
Commercial paper					
G.E. Capital Corporation	NR	N/A	6.0%	01/30/06	\$ 99,629
Investment pools					
MAGIC Fund	N/A	N/A	52.8%	N/A	\$ 870,080
Negotiable certificates of deposit					
Investors Community Bank	N/A	N/A	5.8%	02/13/06	\$ 94,820
Sovereign Bank	N/A	N/A	5.8%	02/23/06	94,823
Treasury Bank	N/A	N/A	<5.0%	08/25/06	41,818
GMAC Automotive Bank	N/A	N/A	5.9%	09/28/06	97,034
Western Bank	N/A	N/A	<5.0%	05/25/06	53,000
Total negotiable certificates of deposit					\$ 381,495
Total investments					\$ 1,648,533
Deposits					676,553
Money market accounts with broker					10,719
Certificates of deposit					400,000
Petty cash					2,000
Total Cash and Investments					\$ 2,737,805

N/A - Not Applicable

NR - Not Rated

<5.0% - Concentration is less than five percent of investments

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2005, for the County's governmental activities, and including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 92,365	\$ -
Special assessments	250	-
Accounts	23,584	-
Accrued interest	3,809	-
Due from other governments	2,949,811	-
Advances to other governments	30,000	30,000
Total Governmental Activities	\$ 3,099,819	\$ 30,000

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	\$ 217,383	\$ -	\$ -	\$ 217,383
Right-of-way	341,653	-	-	341,653
Total capital assets not depreciated	\$ 559,036	\$ -	\$ -	\$ 559,036
Capital assets depreciated				
Buildings	\$ 3,006,528	\$ -	\$ -	\$ 3,006,528
Office furniture and equipment	1,587,694	8,042	-	1,595,736
Machinery and automotive	2,661,767	321,501	198,651	2,784,617
Infrastructure	18,908,978	260,480	-	19,169,458
Total capital assets depreciated	\$ 26,164,967	\$ 590,023	\$ 198,651	\$ 26,556,339
Less: accumulated depreciation for				
Buildings	\$ 1,610,281	\$ 69,228	\$ -	\$ 1,679,509
Office furniture and equipment	1,554,688	11,331	-	1,566,019
Machinery and automotive	2,020,768	241,837	189,961	2,072,644
Infrastructure	8,047,755	611,404	-	8,659,159
Total accumulated depreciation	\$ 13,233,492	\$ 933,800	\$ 189,961	\$ 13,977,331
Total capital assets depreciated, net	\$ 12,931,475	\$ (343,777)	\$ 8,690	\$ 12,579,008
Governmental Activities Capital Assets, Net	\$ 13,490,511	\$ (343,777)	\$ 8,690	\$ 13,138,044

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities	
General government	\$ 86,872
Public safety	12,131
Highways and streets, including depreciation of infrastructure	830,229
Human services	<u>4,568</u>
Total Depreciation Expense	<u>\$ 933,800</u>

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	Description
General Fund	Capital Projects Fund Human Services Special Revenue Fund	\$ 162,655 <u>21,499</u>	Courthouse improvements Charges for services rendered
Total Due to General Fund		\$ 184,154	
Road and Bridge Special Revenue Fund	Ditch Special Revenue Fund	62	Ditch services rendered
Transportation Special Revenue Fund	Human Services Special Revenue Fund	<u>1,681</u>	Transportation services
Total Due To/From Other Funds		<u>\$ 185,897</u>	

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

2. Detailed Notes on All Funds

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

2. Interfund Transfers

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

Transfer to General Fund from		Prior year fund balance of Public Health Nurse Special Revenue Fund closed during the year, and reimbursement for courthouse improvements.
Other nonmajor governmental funds	<u>\$ 34,644</u>	

C. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 184,508
Salaries	85,456
Due to other governments	<u>73,853</u>
Total Payables	<u>\$ 343,817</u>

2. Construction Commitments

The County has no active construction projects as of December 31, 2005.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Deferred Revenue

Deferred revenue consists of taxes and special assessments receivable, state grants not collected soon enough after year-end to pay liabilities of the current period, money from grants and state-aid highway allotments received but not yet earned, and other items. Deferred revenue at December 31, 2005, is summarized by fund:

	Taxes and Special Assessments	Grants	State-Aid Highway Allotments	Other	Total
Major governmental funds					
General	\$ 45,517	\$ 1,715	\$ -	\$ -	\$ 47,232
Road and Bridge	14,057	-	2,674,301	-	2,688,358
Human Services	13,405	98,767	-	-	112,172
Nonmajor governmental funds					
Ditch	249	-	-	-	249
Solid Waste	4,749	-	-	10,349	15,098
Transportation	-	86	-	-	86
Total	<u>\$ 77,977</u>	<u>\$ 100,568</u>	<u>\$ 2,674,301</u>	<u>\$ 10,349</u>	<u>\$ 2,863,195</u>
Deferred revenue					
Unavailable	\$ 77,977	\$ 58,695	\$ 2,674,301	\$ 10,349	\$ 2,821,322
Unearned	-	41,873	-	-	41,873
Total	<u>\$ 77,977</u>	<u>\$ 100,568</u>	<u>\$ 2,674,301</u>	<u>\$ 10,349</u>	<u>\$ 2,863,195</u>

4. Vacation and Sick Leave

Under the County's personnel policies, County employees are granted vacation in varying amounts based on their length of service. Vacation leave accrual varies from 12 to 24 days per year. Sick leave accrual is 12 days per year.

Unused accumulated vacation and vested sick leave are paid to employees upon termination. Unvested sick leave, valued at \$452,159 at December 31, 2005, is available to employees in the event of illness-related absences, but is not paid to them upon termination.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Other Postemployment Benefits

Retirees

The County pays health insurance for employees who retire with at least 12 years experience, who have reached the age of 55, but who are under the age of 65 and not eligible for Medicare. The County pays 50 percent of the cost of single coverage. The County's contributions for the year ended December 31, 2005, were \$1,499. During 2005, one employee qualified for retired employee health insurance coverage.

6. Long-Term Debt

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2005</u>
General Obligation Bonds 2004 G.O. Capital Improvement Bonds	2008	\$70,000	1.50 - 2.15	<u>\$ 210,000</u>	<u>\$ 140,000</u>

7. Debt Service Requirements

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

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 70,000	\$ 2,765
2007	70,000	1,505
Total	<u>\$ 140,000</u>	<u>\$ 4,270</u>

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

8. 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	\$ 280,000	\$ -	\$ 140,000	\$ 140,000	\$ 70,000
Compensated absences	301,370	37,092	-	338,462	26,600
 Total Long-Term Liabilities	 \$ 581,370	 \$ 37,092	 \$ 140,000	 \$ 478,462	 \$ 96,600

3. Employee Retirement Systems and Pension Plans

A. Plan Description

All full-time and certain part-time employees of Grant 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 and the Public Employees Police and Fire Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund.

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.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For the 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 Retirement Fund members whose annuity is calculated using Method 1, and all Public Employees Police and Fire Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund and the Public Employees Police and Fire 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 the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

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.

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

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

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

	Public Employees Retirement Fund		Public Employees Police and Fire Fund
2005	\$ 132,434		\$ 32,298
2004	127,884		28,019
2003	137,347		25,367

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

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management

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

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

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 is a defendant in various lawsuits. 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.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

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

C. Joint Ventures

Area Agency on Aging

The Area Agency on Aging was established June 2, 1982, by a joint powers agreement among Becker, Clay, Douglas, Grant, Otter Tail, Pope, Stevens, Traverse, and Wilkin Counties. The agreement was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the nine-county area. Each county may be assessed a proportional share of 25 percent of the administrative costs incurred in carrying out this agreement. Each county's proportional share of the 25 percent of the administrative costs will be based upon the number of persons age 60 or older living within that county.

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

Complete financial information can be obtained from:

Area Agency on Aging
P. O. Box 726
Fergus Falls, Minnesota 56538-0726

Mid-State Community Health Services

Grant, Pope, Stevens, and Traverse Counties entered into a joint powers agreement creating and operating the Mid-State Community Health Services pursuant to Minn. Stat. § 471.59. Stevens-Traverse Public Health receives and administers the grant money.

Complete financial information can be obtained from the Stevens County Auditor's Office at the Courthouse or from:

Mid-State Community Health Services
621 Pacific Avenue
Morris, Minnesota 56267-1321

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Minnesota River Basin

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

In the event of termination of the agreement, all property, real and personal, held by the Joint Powers Board shall be distributed by resolution of the policy committee to best accomplish the continuing purposes of the project. Control is vested in an Executive Board of five officers elected from the membership of the Joint Powers Board, consisting of one representative and alternate from each County Board of Commissioners in this agreement. During 2005, Grant County did not contribute to the Joint Powers Board.

Complete financial information can be obtained from:

Minnesota River Basin Joint Powers Board
Administration Building No. 14
600 East 4th Street
Chaska, Minnesota 55318

West Central Minnesota Drug Task Force

The West Central Minnesota Drug Task Force was established in 1996 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Becker, Clay, Douglas, Grant, Otter Tail, and Todd Counties, and the Cities of Alexandria, Breckenridge, Detroit Lakes, Fargo, Fergus Falls, Moorhead, Pelican Rapids, Perham, and Wahpeton. The Task Force's objectives are to detect, investigate, and apprehend controlled substance offenders in the six-county area.

Control of the West Central Minnesota Drug Task Force is vested in a Board of Directors. The Board of Directors consists of department heads or a designee from each participating full-time member agency. In the event of dissolution of the Task

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

West Central Minnesota Drug Task Force (Continued)

Force, the equipment will be divided and returned to the appropriate agencies. However, if only one agency terminates its agreement and the unit continues, all equipment will remain with the Task Force.

Douglas County in an agent capacity, reports the cash transactions of the West Central Minnesota Drug Task Force as an agency fund on its financial statements. Financing and equipment will be provided by the full-time and associate member agencies. Grant County provided \$3,500 to this organization in 2005.

Pomme de Terre River Association

The Pomme de Terre River Association Joint Powers Board was established August 11, 1981, by a joint powers agreement between Grant County and five other counties and their respective soil and water conservation districts. The agreement was made to develop and implement plans to protect property from damage of flooding; control erosion of land; protect streams and lakes from sedimentation and pollution; and maintain or improve the quality of water in the streams, lakes, and ground water lying within the boundaries of the watershed of the Pomme de Terre River.

Administrative costs are apportioned equally to the soil and water conservation districts included in the Association based on actual costs.

Control of the Pomme de Terre River Association is vested in a Joint Powers Board, comprised of one representative of each of the County Board of Commissioners and one representative from each soil and water conservation district board of supervisors included within the agreement. During 2005, Grant County contributed \$2,730 to the Joint Powers Board.

Complete financial information can be obtained from:

Pomme de Terre River Association Joint Powers Board
900 Roberts Street, Suite 104
Alexandria, Minnesota 56308

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Prime West Central County-Based Purchasing Initiative

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

Control of the Prime West Central County-Based Purchasing Initiative is vested in a Joint Powers Board, comprising of one Commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the county he or she represents. In the event of termination of the joint powers agreement, all property purchased or owned pursuant to this agreement shall be sold and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional shares.

Financing is provided by medical assistance and general assistance medical care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and by proportional contributions from member counties if necessary to cover operational costs. In 1999, Grant County provided \$30,000 in the form of an initial start-up loan to the Prime West Central County-Based Purchasing Initiative.

Douglas County acts as fiscal agent for the Prime West Central County-Based Purchasing Initiative and reports the cash transactions as an investment trust fund on its financial statements.

Complete financial information can be obtained from:

Prime West Central County-Based Purchasing Initiative
Douglas County Courthouse
305 - 8th Avenue West
Alexandria, Minnesota 56308

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

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

D. Jointly-Governed Organizations

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

Western Area City/County Co-Op

Grant County and 24 other cities and counties entered into a joint powers agreement to establish the Western Area City/County Co-Op (WACCO) Joint Powers Board, effective September 5, 1995, and empowered under Minn. Stat. § 471.59. The purpose of the Board is to establish a resource network that identifies common needs of the individual governmental units and reduces the financial burdens on each of its members through the cooperative sharing of existing resources. The management and control of WACCO is vested in a Board of Directors composed of a representative appointed by each member city and county.

District IV Transportation Planning

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

Grant County Child and Youth Council Collaborative

The Grant County Child and Youth Council Collaborative was established in 1998 under the authority of Minn. Stat. § 124D.23. The Collaborative includes Ashby Public School, Herman-Norcross Public School, West Central Area Schools, Grant County Public Health, Grant County Social Services, and West Central Minnesota Community Action, Inc. The Collaborative was formed as a family services collaborative for the purpose of providing coordinated child and family services and to create an integrated system of services for children and families with multiple and special needs.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Grant County Child and Youth Council Collaborative (Continued)

Control of the Collaborative is vested in a collaborative governing board and an Executive Committee. The Board is composed of one member and alternate from each agency involved. The Board shall exercise revenue authority and approve the annual budget. The Executive Committee comprises the directors of Grant County Public Health, Grant County Social Services, and West Central Community Action, Inc.; the superintendents of Ashby, Herman-Norcross, and West Central Area Schools; a representative of the Grant County Department of Court Services; and a parent nominated from the area. The Executive Committee has policy oversight authority for integrated services design as well as authority over expenditures.

Any party may exercise a right to withdraw from the Grant County Child and Youth Council Collaborative by passage of a resolution by its governing body declaring its intent to withdraw and giving at least a 180-day notice. When a party exercises its option to withdraw, the party shall remain liable for fiscal obligation incurred prior to the effective date of the withdrawal. If the Collaborative is terminated, the Board shall continue to exist for the limited purpose of discharging the Collaborative's debts and liabilities, settling its affairs, and disposing of integrated fund assets, if any.

Financing is provided by state and federal grants and contributions from the member parties. During 2005, the County did not contribute any funds to the Collaborative.

5. Component Unit Disclosures

A. Summary of Significant Accounting Policies

1. Reporting Entity

The Housing and Redevelopment Authority (HRA) of Grant County is a component unit of Grant County and is reported in a separate column in the County's financial statements to emphasize that the HRA is a legally separate entity from Grant County. The HRA operates as a public agency created by Grant County under the Minnesota Housing and Redevelopment Authority Act of 1947. The primary purpose is to provide housing and redevelopment services to the County. The governing body consists of a five-member Board of Commissioners

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

5. Component Unit Disclosures

A. Summary of Significant Accounting Policies

1. Reporting Entity (Continued)

appointed by the Grant County Board of Commissioners to serve five-year terms. The financial statements included are as of and for the year ended December 31, 2005.

2. Basis of Accounting

The HRA is reported as an enterprise fund and is accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

3. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

4. Cash

For purposes of the statement of cash flows, all cash deposits and temporary investments with original terms of three months or less are considered to be cash.

5. Capital Assets

Property and equipment are stated at historical cost or estimated historical cost and are depreciated using the straight-line method over their estimated useful lives ranging from 8 to 40 years.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

5. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

6. Capitalized Interest

In determining the cost of capital projects, the HRA capitalizes that portion of the interest cost which could have been avoided if the capital project had not been undertaken. No interest was capitalized for the year ended December 31, 2005.

7. Estimates

The preparation of financial statements in conformity with the accounting practices generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

B. Detailed Notes on All Funds

1. Deposits

Reconciliation of the County's total cash, as reported in the basic financial statements to deposits, cash on hand and investments follows:

Cash and pooled investments	
Deposits	\$ 145,169
Certificates of deposit	<u>351,517</u>
Total cash and pooled investments	\$ 496,686
Restricted cash	
Tenant security deposits	<u>17,300</u>
Total Cash and Investments	<u><u>\$ 513,986</u></u>

In accordance with Minnesota statutes, the HRA maintains deposits at those depository banks authorized by the Board of Directors. All such depositories are members of the Federal Reserve System.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Deposits (Continued)

Minnesota statutes require that all HRA deposits be protected by insurance, surety bond, or collateral. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation insurance. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

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

Custodial Credit Risk

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

2. Investments

Minnesota statutes generally authorize the same types of investments for the HRA as for the County. See Note 2.A.1.b.

During the year ended December 31, 2005, the HRA had no investments.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes on All Funds (Continued)

3. Capital Assets

The HRA's capital asset activity for the year ended December 31, 2005, follows:

	Beginning Balance	Adjustments	Additions	Removals	Ending Balance
Capital assets not depreciated					
Land	\$ 522,644	\$ (1)	\$ 7,567	\$ -	\$ 530,210
Capital assets depreciated					
Building	\$ 3,886,570	\$ -	\$ 54,852	\$ -	\$ 3,941,422
Equipment, furniture, and fixtures	131,735	4,220	17,837	-	153,792
Total capital assets depreciated	\$ 4,018,305	\$ 4,220	\$ 72,689	\$ -	\$ 4,095,214
Less: accumulated depreciation	1,922,328	4,220	117,402	-	2,043,950
Total capital assets depreciated, net	\$ 2,095,977	\$ -	\$ (44,713)	\$ -	\$ 2,051,264
Total	\$ 2,618,621	\$ (1)	\$ (37,146)	\$ -	\$ 2,581,474

4. Long-Term Debt

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

Type of Indebtedness	Beginning Balance	Additions	Reductions	Ending Balance
Market Rate Rental				
1998 Housing Development Bonds	\$ 1,125,000	\$ -	\$ 25,000	\$ 1,100,000
2002 GMHF Loan	101,500	-	-	101,500
Compensated absences	8,478	262	-	8,740
Total Long-Term Debt	\$ 1,234,978	\$ 262	\$ 25,000	\$ 1,210,240

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes on All Funds

4. Long-Term Debt (Continued)

Bonds and loans payable at December 31, 2005, consisted of the following issues:

	Original Issue Amount	Final Maturity	Interest Rate (%)	Outstanding Balance December 31, 2005
Market Rate Rental				
1998 Housing Development Bonds	\$ 1,225,000	2029	4.00 - 5.25	\$ 1,100,000
2002 GMHF Loan	101,500	2027	-	101,500
	<u>\$ 1,326,500</u>			<u>\$ 1,201,500</u>
Total Long-Term Debt				

The annual minimum payment requirements for bonds and loans outstanding as of December 31, 2005, are as follows:

For the Year Ending	Principal	Interest	Total
2006	\$ 25,000	\$ 56,248	\$ 81,248
2007	25,000	55,123	80,123
2008	25,000	53,998	78,998
2009	30,000	52,873	82,873
2010	30,000	51,433	81,433
2011 - 2015	170,000	234,418	404,418
2016 - 2020	220,000	186,178	406,178
2021 - 2025	285,000	122,825	407,825
2026 - 2030	391,500	39,375	430,875
	<u>\$ 1,201,500</u>	<u>\$ 852,471</u>	<u>\$ 2,053,971</u>
Totals			

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

5. Component Unit Disclosures (Continued)

C. Defined Benefit Pension Plan

Plan Description

The Principal Mutual Life Insurance Company Retirement Plan (Plan) is a defined contribution retirement plan covering essentially all employees of the various participating employers. Since the participating employers are all government units, the Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, except for the contribution limitations of Section 415. The payroll for employees covered by the Plan for the year ended December 31, 2005, was \$67,107; the HRA's total payroll was \$102,280.

The Plan and Trust are qualified under Section 401(a) of the Internal Revenue Code and their income is exempt from taxation under Section 501(a) of the Code.

The Plan is funded by employer contributions and, in some cases, employee contributions. The rates of contributions are determined by the various adoption agreements of the participating employers.

Terminating or retiring participants are entitled to certain benefits including the full amount of their contributions to the Plan as well as earnings on their contributions. In addition to the amount of their contribution, each participant is entitled to the portion of the employer's contributions in which he or she has a vested interest. Vesting provisions are determined in accordance with the participating employers' adoption agreement. If a participating employee should die prior to retirement, then the employee or their designated beneficiary shall be entitled to the full value of the participant's account. Benefits are payable in the form of lump sum cash settlements or purchased annuities, depending upon the election of the participant and the nature of their termination or retirement.

If the Plan is terminated or contributions under the Plan are discontinued, the participating employees are entitled to benefits accrued to the date of such termination or discontinuance to the extent funded and/or to the amounts credited to the employees' accounts.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

5. Component Unit Disclosures

C. Defined Benefit Pension Plan (Continued)

Contributions Required and Contributions Made

Covered employees contribute fixed percentages of their gross earnings to the Plan. The HRA makes monthly contributions to the pension plan. Current contribution rates are as follows:

Employee	-
Employer	13.00%

Total contributions made during the fiscal years ending December 31, 2005 and 2004, were \$8,724 and \$7,752, respectively.

D. Risk Management

The HRA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors or omissions; job-related illnesses or injuries to employees; and natural disasters for which the HRA carries commercial insurance. The various insurance policies are subject to deductible amounts and maximum coverages. If the deductibles and maximum coverages are exceeded, this could cause the HRA to suffer losses if a loss is incurred from such incidents. Settled claims to date have not exceeded coverage levels and insurance coverage by major categories of risk in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Schedule 1

**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>		
Revenues				
Taxes	\$ 2,007,872	\$ 2,007,872	\$ 1,973,953	\$ (33,919)
Licenses and permits	35	35	1,402	1,367
Intergovernmental	731,896	731,896	886,702	154,806
Charges for services	197,975	197,975	300,971	102,996
Fines and forfeits	-	-	703	703
Investment income	35,000	35,000	47,608	12,608
Miscellaneous	114,502	114,502	144,274	29,772
Total Revenues	\$ 3,087,280	\$ 3,087,280	\$ 3,355,613	\$ 268,333
Expenditures				
Current				
General government				
Commissioners	\$ 136,806	\$ 136,806	\$ 187,433	\$ (50,627)
County coordinator	116,184	116,184	81,002	35,182
Personnel	71,109	71,109	75,235	(4,126)
County auditor	197,387	197,387	207,326	(9,939)
License bureau	89,481	89,481	90,065	(584)
County treasurer	133,246	133,246	119,628	13,618
County assessor	182,071	182,071	165,802	16,269
Elections	3,500	3,500	538	2,962
Accounting and auditing	30,000	30,000	17,384	12,616
Data processing	-	-	113,549	(113,549)
Attorney	148,147	148,147	146,642	1,505
Law library	-	-	14,809	(14,809)
Recorder	166,010	166,010	163,109	2,901
Land management	120,085	120,085	120,354	(269)
Buildings and plant	66,463	66,463	76,035	(9,572)
Veterans service officer	12,568	12,568	12,211	357
Other	285,676	285,676	215,009	70,667
Total general government	\$ 1,758,733	\$ 1,758,733	\$ 1,806,131	\$ (47,398)
Public safety				
Sheriff	\$ 765,537	\$ 765,537	\$ 839,246	\$ (73,709)
County jail	-	-	19,879	(19,879)
Boat and water safety	-	-	3,597	(3,597)
Emergency management	13,690	13,690	40,919	(27,229)
E-911 system	39,260	39,260	15,656	23,604
Coroner	6,000	6,000	6,793	(793)
Community corrections	95,000	95,000	89,854	5,146
Total public safety	\$ 919,487	\$ 919,487	\$ 1,015,944	\$ (96,457)
Health				
Nursing service	\$ 141,770	\$ 141,770	\$ 145,030	\$ (3,260)

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Culture and recreation				
Historical society	\$ 7,439	\$ 7,439	\$ 17,439	\$ (10,000)
County fair	18,540	18,540	18,540	-
Regional library	43,962	43,962	43,962	-
Total culture and recreation	\$ 69,941	\$ 69,941	\$ 79,941	\$ (10,000)
Conservation of natural resources				
Cooperative extension	\$ 106,961	\$ 106,961	\$ 100,353	\$ 6,608
Soil and water conservation	50,350	50,350	54,546	(4,196)
Water planning	22,001	22,001	32,396	(10,395)
Total conservation of natural resources	\$ 179,312	\$ 179,312	\$ 187,295	\$ (7,983)
Economic development				
Economic development	\$ 35,000	\$ 35,000	\$ 35,000	\$ -
Debt service				
Principal	\$ -	\$ -	\$ 70,000	\$ (70,000)
Interest	-	-	3,815	(3,815)
Total debt service	\$ -	\$ -	\$ 73,815	\$ (73,815)
Total Expenditures	\$ 3,104,243	\$ 3,104,243	\$ 3,343,156	\$ (238,913)
Excess of Revenues Over (Under) Expenditures	\$ (16,963)	\$ (16,963)	\$ 12,457	\$ 29,420
Other Financing Sources (Uses)				
Transfers in	-	-	34,644	34,644
Net Change in Fund Balance	\$ (16,963)	\$ (16,963)	\$ 47,101	\$ 64,064
Fund Balance - January 1	1,115,725	1,115,725	1,115,725	-
Fund Balance - December 31	\$ 1,098,762	\$ 1,098,762	\$ 1,162,826	\$ 64,064

**GRANT COUNTY
ELBOW LAKE, 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	\$ 586,431	\$ 586,431	\$ 580,686	\$ (5,745)
Intergovernmental	1,338,546	1,338,546	1,866,093	527,547
Charges for services	8,000	8,000	74,349	66,349
Miscellaneous	51,000	51,000	18,105	(32,895)
Total Revenues	\$ 1,983,977	\$ 1,983,977	\$ 2,539,233	\$ 555,256
Expenditures				
Current				
Highways and streets				
Administration	\$ 275,400	\$ 275,400	\$ 252,652	\$ 22,748
Maintenance	756,000	756,000	752,070	3,930
Construction	803,200	803,200	997,834	(194,634)
Equipment maintenance and shop	670,200	670,200	607,750	62,450
Materials and services for resale	-	-	16,502	(16,502)
Total highways and streets	\$ 2,504,800	\$ 2,504,800	\$ 2,626,808	\$ (122,008)
Intergovernmental				
Highways and streets	-	-	155,698	(155,698)
Total Expenditures	\$ 2,504,800	\$ 2,504,800	\$ 2,782,506	\$ (277,706)
Net Change in Fund Balance	\$ (520,823)	\$ (520,823)	\$ (243,273)	\$ 277,550
Fund Balance - January 1	679,568	679,568	679,568	-
Increase (decrease) in reserved for inventories	-	-	20,030	20,030
Fund Balance - December 31	\$ 158,745	\$ 158,745	\$ 456,325	\$ 297,580

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 542,727	\$ 542,727	\$ 538,801	\$ (3,926)
Intergovernmental	1,496,746	1,496,746	1,775,135	278,389
Charges for services	38,689	38,689	48,083	9,394
Miscellaneous	-	-	194,001	194,001
Total Revenues	\$ 2,078,162	\$ 2,078,162	\$ 2,556,020	\$ 477,858
Expenditures				
Current				
Human services				
Income maintenance	\$ 483,822	\$ 483,822	\$ 581,892	\$ (98,070)
Social services	1,617,856	1,617,856	1,951,556	(333,700)
Total Expenditures	\$ 2,101,678	\$ 2,101,678	\$ 2,533,448	\$ (431,770)
Net Change in Fund Balance	\$ (23,516)	\$ (23,516)	\$ 22,572	\$ 46,088
Fund Balance - January 1	665,707	665,707	665,707	-
Fund Balance - December 31	\$ 642,191	\$ 642,191	\$ 688,279	\$ 46,088

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

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

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and certain special revenue funds. 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 Grant County Auditor so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. The County's department 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 fund level. During the year, the Board made no supplemental budgetary appropriations.

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 funds had expenditures in excess of budget for the year ended December 31, 2005:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 3,343,156	\$ 3,104,243	\$ 238,913
Road and Bridge Special Revenue Fund	2,782,506	2,504,800	277,706
Human Services Special Revenue Fund	2,533,448	2,101,678	431,770

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SUPPLEMENTARY INFORMATION

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Ditch Fund accounts for the financing and related costs of all County ditches.

The Public Health Nurse Fund is used to account for the financing and related costs of providing nursing service care to the elderly and other residents of the County. Financing is provided by health care service grants, County contributions, and user service charges. This fund was closed into the General Fund during 2005.

The Solid Waste Fund accounts for the financing and costs related to the collection and disposal of solid waste and the County recycling activities.

The Transportation Fund is used to account for the financing and related costs of providing transportation services to residents of the County. Financing is provided by grants, County contributions, and user service charges.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for the capital improvements made using bond proceeds.

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Statement 1

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

	<u>Special Revenue Funds</u>			<u>Capital Projects Fund</u>	<u>Total</u>
	<u>Ditch</u>	<u>Solid Waste</u>	<u>Transportation</u>		
<u>Assets</u>					
Cash and pooled investments	\$ 248,917	\$ 32,367	\$ 81,222	\$ 162,655	\$ 525,161
Taxes receivable					
Delinquent	-	5,082	-	-	5,082
Special assessments receivable					
Delinquent	250	-	-	-	250
Accounts receivable	-	-	2,043	-	2,043
Accrued interest receivable	214	-	-	-	214
Due from other funds	-	-	1,681	-	1,681
Due from other governments	-	15,046	4,312	-	19,358
Total Assets	\$ 249,381	\$ 52,495	\$ 89,258	\$ 162,655	\$ 553,789
<u>Liabilities and Fund Balance</u>					
Liabilities					
Accounts payable	\$ 1,230	\$ 14,055	\$ 12,497	\$ -	\$ 27,782
Due to other funds	62	-	-	162,655	162,717
Due to other governments	-	10,177	-	-	10,177
Deferred revenue - unavailable	249	15,098	86	-	15,433
Total Liabilities	\$ 1,541	\$ 39,330	\$ 12,583	\$ 162,655	\$ 216,109
Fund Balance					
Unreserved					
Undesignated	247,840	13,165	76,675	-	337,680
Total Liabilities and Fund Balance	\$ 249,381	\$ 52,495	\$ 89,258	\$ 162,655	\$ 553,789

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Statement 2

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

	Special Revenue Funds				Capital Projects Fund	Total
	Ditch	Public Health Nurse	Solid Waste	Transportation		
Revenues						
Special assessments	\$ 32,671	\$ -	\$ 71,291	\$ -	\$ -	\$ 103,962
Licenses and permits	-	-	201	-	-	201
Intergovernmental	-	-	49,984	92,591	-	142,575
Charges for services	-	-	404,232	65,660	-	469,892
Investment income	2,124	-	-	2,411	-	4,535
Miscellaneous	-	-	-	725	-	725
Total Revenues	\$ 34,795	\$ -	\$ 525,708	\$ 161,387	\$ -	\$ 721,890
Expenditures						
Current						
Sanitation	\$ -	\$ -	\$ 551,132	\$ -	\$ -	\$ 551,132
Human services	-	-	-	155,784	-	155,784
Conservation of natural resources	28,282	-	-	-	-	28,282
Debt service						
Principal	70,000	-	-	-	-	70,000
Interest	1,733	-	-	-	-	1,733
Total Expenditures	\$ 100,015	\$ -	\$ 551,132	\$ 155,784	\$ -	\$ 806,931
Excess of Revenues Over (Under) Expenditures	\$ (65,220)	\$ -	\$ (25,424)	\$ 5,603	\$ -	\$ (85,041)
Other Financing Sources (Uses)						
Transfers out	-	(2,539)	-	-	(32,105)	(34,644)
Net Change in Fund Balance	\$ (65,220)	\$ (2,539)	\$ (25,424)	\$ 5,603	\$ (32,105)	\$ (119,685)
Fund Balance - January 1	313,060	2,539	38,589	71,072	32,105	457,365
Fund Balance - December 31	\$ 247,840	\$ -	\$ 13,165	\$ 76,675	\$ -	\$ 337,680

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
PUBLIC HEALTH NURSE 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>		
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (2,539)	\$ (2,539)
Fund Balance - January 1	<u>2,539</u>	<u>2,539</u>	<u>2,539</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 2,539</u>	<u>\$ 2,539</u>	<u>\$ -</u>	<u>\$ (2,539)</u>

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
TRANSPORTATION 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	\$ 78,652	\$ 78,652	\$ 92,591	\$ 13,939
Charges for services	69,277	69,277	65,660	(3,617)
Interest income	-	-	2,411	2,411
Miscellaneous	-	-	725	725
Total Revenues	\$ 147,929	\$ 147,929	\$ 161,387	\$ 13,458
Expenditures				
Current				
Human services				
Transportation	153,275	153,275	155,784	(2,509)
Net Change in Fund Balance	\$ (5,346)	\$ (5,346)	\$ 5,603	\$ 10,949
Fund Balance - January 1	71,072	71,072	71,072	-
Fund Balance - December 31	\$ 65,726	\$ 65,726	\$ 76,675	\$ 10,949

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

AGENCY FUNDS

The School Fund accumulates the schools' share of light and power taxes and penalties, which are apportioned according to the average resident pupil attendance.

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

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

The Towns and Cities Fund accounts for the collection and payment of funds due to towns and cities.

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**GRANT COUNTY
ELBOW LAKE, 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>SCHOOL FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,655,682	\$ 1,655,682	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,655,682	\$ 1,655,682	\$ -
 <u>STATE REVENUE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 211	\$ 27,764	\$ 28,039	\$ (64)
Due from other governments	-	64	-	64
Total Assets	\$ 211	\$ 27,828	\$ 28,039	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 211	\$ 27,828	\$ 28,039	\$ -
 <u>TAXES AND PENALTIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 110,582	\$ 7,320,716	\$ 7,326,258	\$ 105,040
<u>Liabilities</u>				
Due to other governments	\$ 110,582	\$ 7,320,716	\$ 7,326,258	\$ 105,040

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

*Statement 3
(Continued)*

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOWNS AND CITIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 16,031	\$ 1,923,895	\$ 1,933,462	\$ 6,464
<u>Liabilities</u>				
Due to other governments	\$ 16,031	\$ 1,923,895	\$ 1,933,462	\$ 6,464
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 126,824	\$ 10,928,057	\$ 10,943,441	\$ 111,440
Due from other governments	-	64	-	64
Total Assets	\$ 126,824	\$ 10,928,121	\$ 10,943,441	\$ 111,504
<u>Liabilities</u>				
Due to other governments	\$ 126,824	\$ 10,928,121	\$ 10,943,441	\$ 111,504

OTHER SCHEDULES

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

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

	Assets			Total
	Cash	Special Assessments Delinquent	Accrued Interest Receivable	
County Ditches				
No. 1	\$ 7,575	\$ -	\$ 9	\$ 7,584
No. 3	22,749	91	29	22,869
No. 5	568	-	-	568
No. 6	2,595	-	-	2,595
No. 8	29,769	-	37	29,806
No. 9	18,450	-	20	18,470
No. 11	(620)	-	-	(620)
No. 13	2,749	-	-	2,749
No. 15	3,593	-	-	3,593
No. 21	16,093	-	16	16,109
No. 22	2,722	-	-	2,722
No. 23	6,558	-	9	6,567
No. 29	47,577	-	52	47,629
No. 30	2,007	-	-	2,007
No. 31	1,120	-	-	1,120
No. 32	10,480	159	13	10,652
No. 33	1,235	-	-	1,235
Consolidated				
No. 2	23,845	-	29	23,874
Judicial Ditches				
No. 1	757	-	-	757
No. 2	49,095	-	-	49,095
Total	\$ 248,917	\$ 250	\$ 214	\$ 249,381

Schedule 6

Liabilities					
Accounts Payable	Due to Other Funds	Deferred Revenue	Total	Fund Balances Undesignated	Total Liabilities and Fund Balances
\$ -	\$ -	\$ -	\$ -	\$ 7,584	\$ 7,584
-	-	90	90	22,779	22,869
-	-	-	-	568	568
-	-	-	-	2,595	2,595
-	-	-	-	29,806	29,806
-	-	-	-	18,470	18,470
-	-	-	-	(620)	(620)
-	-	-	-	2,749	2,749
-	-	-	-	3,593	3,593
-	-	-	-	16,109	16,109
-	-	-	-	2,722	2,722
-	-	-	-	6,567	6,567
1,230	-	-	1,230	46,399	47,629
-	-	-	-	2,007	2,007
-	-	-	-	1,120	1,120
-	-	159	159	10,493	10,652
-	-	-	-	1,235	1,235
-	-	-	-	23,874	23,874
-	-	-	-	757	757
-	62	-	62	49,033	49,095
\$ 1,230	\$ 62	\$ 249	\$ 1,541	\$ 247,840	\$ 249,381

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Schedule 7

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

Shared Revenue

State

Highway users tax	\$	1,660,563
County program aid		601,724
PERA rate reimbursement		15,868
Disparity reduction aid		6,168
Police aid		28,019
Enhanced 911		58,062
Market value credit		334,337
		334,337

Total Shared Revenue **\$ 2,704,741**

Reimbursement for Services

Minnesota Department of Human Services	\$	<u>531,689</u>
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Payments

Local

Local share of construction	\$	21,844
Payments in lieu of taxes		<u>35,050</u>

Total Payments **\$ 56,894**

Grants

State

Minnesota Department of		
Corrections	\$	10,997
Public Safety		2,621
Transportation		79,397
Natural Resources		7,541
Human Services		941,044
Trial Courts		12,749
Environmental Assistance		49,984
Water and Soil Resources Board		41,172
Peace Officer Standards and Training Board		<u>2,467</u>

Total State **\$ 1,147,972**

Federal

Department of		
Labor	\$	1,000
Transportation		13,194
Health and Human Services		157,036
Homeland Security		<u>57,979</u>

Total Federal **\$ 229,209**

Total State and Federal Grants **\$ 1,377,181**

Total Intergovernmental Revenue **\$ 4,670,505**

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Schedule 8

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-2 Departmental Internal Accounting Controls

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. 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 internal control perspective.

Examples of incompatible duties that 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 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, if possible, implement oversight procedures to ensure that adequate controls are in place over cash, receivables, and other items.

96-4 Computer Disaster Recovery Plan

Several years ago, Grant County developed an electronic data processing disaster recovery plan to reduce the County's risk of loss in the event of a computer-related emergency. At that time the County signed an agreement with Stevens County for the use of a back-up computer. The disaster recovery plan covers the County's IBM AS-400 but does not address the personal computers owned by the County. The disaster recovery plan has never been tested.

We recommend Grant County review and update its computer disaster recovery plan. The plan should contain an agreement for the use of a back-up computer in the event of a disaster and address the issue of personal computers. The plan should be tested annually and the results documented to ensure its effectiveness.

00-1 Capital Asset Records

A physical inventory of the County's capital assets has not been performed in several years, and several items of road and bridge equipment do not have tags properly identifying them as County property.

Also during 2005, we noted the following:

- one instance where a Highway Department dozer was incorrectly classified as office furniture and equipment;
- one instance where Highway Department equipment was incorrectly recorded at a purchase price of \$72,172 when it should have been recorded at \$170,421; and

- one instance where a Highway Department dozer traded in was not included in capital asset deletions.

We recommend that the County Board review and update its capital asset policies and procedures and the means of enforcement in order to strengthen internal control over capital assets. Written policies and procedures should, at a minimum, address the following guidelines and our findings to be consistent with generally accepted accounting principles.

- The County's administration should establish an ongoing system for identifying acquisitions and disposals of capital assets that meet the County's capitalization policy. Information on the County's system should be communicated to department heads who should be held responsible for the accuracy of additions, deletions, and changes in capital assets.
- An authorizing signature of a department head or designee should be required for any change in the capital asset records. Transfers of capital assets between departments should be evidenced by authorizing signatures from both departments involved. Additions, deletions, and changes to capital assets should be reported to a County official given the responsibility and authority to maintain and summarize the information on a timely basis throughout the year.
- Supporting documentation should accompany capital asset change forms. Invoices should support the additions to capital assets. Bills of sale, trade-in evidence, or auction summaries should support deletions of capital assets.
- All capital asset documentation should be filed in an orderly fashion by department, transaction type, or capital asset number for ease of access to the information. This measure will also assist the County with insurance-related activities.
- To maintain adequate accountability, assets should be tagged as County property with a specific identifying number, and the County should conduct a periodic physical inventory of capital assets and adjust its records accordingly.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Public Health Nurse Special Revenue Fund Cash Deficit (04-1)

At December 31, 2004, the Public Health Nurse Special Revenue Fund had a cash deficit of \$8,375.

Resolution

The Public Health Nurse Special Revenue Fund was closed into the General Fund during 2005.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-10 Hospital Capital Assets

The Facility Lease Agreement with the Grant County Health Center (lessee) to lease the capital assets of the discontinued Grant County Hospital continues for a period not to exceed 20 years. According to the lease, the capital assets belonging to Grant County on hand at January 1, 1994, can be utilized by the lessee for the duration of the lease.

The lessee has the right to acquire capital assets or personal property under Section 1.18 of the lease for its sole ownership. Under Section 1.19, the lessee can replace any listed capital assets on hand at January 1, 1994, with a replacement item or any other capital asset that will then become the County's property. Because the capital assets covered by the lease as of January 1, 1994, may revert to the County at the expiration of the lease, the County should periodically update and inventory those capital assets covered by the lease.

In 2001, the Grant County Health Center provided a list of items purchased from 1994 through 2001. However, the list did not provide deletions or changes to those assets purchased as early as 1960 and listed as a County capital asset in prior years. As a result, it is likely that the hospital capital assets are overstated.

We recommend that the County Board annually update the lease agreement inventory and determine if those assets covered by the lease agreement are on hand.

01-3 Consolidated General Ledger

Although the County has taken steps to consolidate its general ledger, the consolidation is not yet complete. Separate general ledgers are maintained by the County Auditor and the Highway Department. Since October 2003, the necessary detail for the Social Services Department is included in the consolidated report; however, the Highway Department information rolls into one general ledger account for expenses and just a few accounts for revenues.

Accounting and reporting controls are more efficient and effective when all transactions are accounted for in one centralized general ledger. The County Board and management are better able to implement and maintain internal control over one central computer system than several decentralized systems. Security access controls to a centralized general ledger could be established so that departments and employees would have the same responsibility and authority for entering detailed transactions as is currently done with separate departmental general ledgers. Managers and employees should have access to assets or records based only on the specific needs commensurate with their positions. A centralized general ledger generally provides more uniformity and consistency in accounting for financial transactions. In addition, it allows senior management to have independent access to financial information for the entire County as needed to manage and monitor its financial operations.

We strongly recommend that the County Board provide the necessary directives to allow for the recording of all detailed financial transactions in a consolidated general ledger.

02-1 Budget Documentation

The County Board adopts a formal budget for its General Fund and the Road and Bridge, Human Services, and Transportation Special Revenue Funds. The County adopts the budget in summary form. Although a formal budget is adopted, expenditure estimates and annual appropriations to the various operational funds within the County are not always clear. The detailed budgets provided for financial statement presentation agree to the levy amounts approved; however, we could not

reconcile the detail of revenues and expenditures to the budget published in the official newspaper for the General Fund and the Road and Bridge Special Revenue Fund.

Generally accepted accounting principles and the County Financial Accounting and Reporting Standards recommend that expenditure estimates and the annual budget be appropriated to the various operational entities within the County and that line-item budget detail by fund should be available. The appropriations constitute maximum expenditure authorizations during the fiscal year and cannot legally be exceeded unless subsequently amended by the County Board. Good budget accounting requires: (1) an annual budget adopted by every governmental unit; (2) an accounting system that provides the basis for appropriate budgetary control; and (3) a common terminology and classification used consistently throughout the budgets, accounts, and financial reports of each fund. The County Board should adopt an accurate budget, and it should be followed by the County. The adopted budget should be designed so that comparisons can be made between current year and budget year. Any amendments to the budget should be approved and documented in the official minutes.

We recommend that the County Board implement procedures to improve its budgetary accounting by including in the official minutes the amounts approved for each fund's revenues and expenditures budget. We also recommend that any changes to the original budget be approved and documented in the minutes by a formal County Board resolution.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pensions 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 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 Board determines that the establishment of a trust is desirable in order to fund the OPEB, the 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 Board will have to decide whether to hire an actuary.

If applicable for Grant County, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2008 and 2009, respectively.

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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
Grant County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Grant County as of and for the year ended December 31, 2005, and have issued our report thereon dated November 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the financial statements of the Housing and Redevelopment Authority of Grant County, a discretely presented component unit. Those financial statements were audited by other auditors, whose report thereon has been furnished to us. We also did not audit the hospital office furniture and equipment and machinery and automotive capital asset inventory reported as part of the governmental activities.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Grant 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 Recommendations as items 96-2, 96-4, and 00-1.

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 Grant 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, Grant County complied with the material terms and conditions of applicable legal provisions.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 14, 2006