

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

BECKER COUNTY
DETROIT LAKES, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

Year Ended December 31, 2004



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

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**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

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**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

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DETROIT LAKES, MINNESOTA**

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**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2004**

			<u>Term Expires</u>
Elected			
Commissioners			
Board Member	Carolyn Engebretson*	District 1	January 2005
Board Member	Harold Salminen	District 2	January 2007
Board Member	Dave Seaberg*	District 3	January 2005
Vice Chair	Robert Bristlin	District 4	January 2007
Chair	Roger Winter*	District 5	January 2005
Attorney	Joseph Evans		January 2007
Auditor	Keith Brekken		January 2007
Treasurer	Ryan Tangen		January 2007
Coroner	Knute Thorsgard		January 2007
Recorder	Darlene Maneval		January 2007
Registrar of Titles	Darlene Maneval		January 2007
County Sheriff	Tim Gordon		January 2007
Surveyor	Roy Smith		January 2007
Appointed			
Administrator	Brian C. Berg		Indefinite
Assessor	Steven Skoog		Indefinite
County Engineer	Brad Wentz		May 2008
Human Services Director	Matt Casey		Indefinite
Natural Resource Manager	Mark Lohmeier		Indefinite
Personnel Director	Nancy Grabanski		Indefinite
Solid Waste Officer	Dan Holm		Indefinite
Emergency Management	Dan Holm		Indefinite
Veteran Services Officer	Dennis Warling		February 2005

* Effective January 3, 2005, Larry Knutson assumed the position of 1st District Commissioner, Karen Mulari assumed the position of 3rd District Commissioner, and Barry Nelson assumed the position of 5th District Commissioner.

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Becker County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Becker County, Minnesota, as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents, including the Sunnyside Care Center Enterprise Fund as of and for the year ended September 30, 2004, and the Housing and Economic Development Authority component unit enterprise activities as of and for the year ended June 30, 2004. These financial statements are the responsibility of Becker County's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Sunnyside Care Center Enterprise Fund. 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 Sunnyside Care Center, is based solely on the report of the other auditors.

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

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 governmental activities, the business-type activities, the discretely presented component unit,

each major fund, and the aggregate remaining fund information of Becker County as of and for the year ended December 31, 2004, including the Sunnyside Care Center Enterprise Fund at September 30, 2004, and the component unit enterprise activities at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Becker County's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2005, on our consideration of Becker County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 25, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

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

INTRODUCTION

Becker County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2004. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

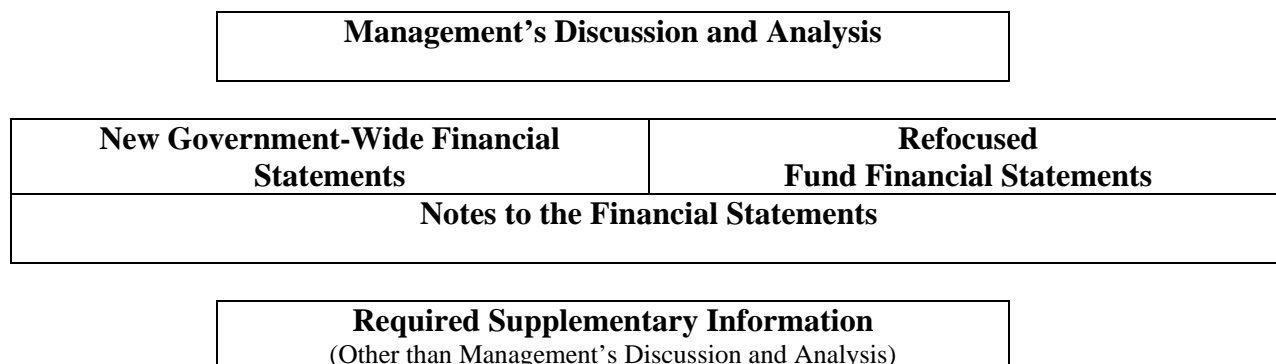
FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$58,881,532 of which Becker County has invested \$37,229,826 in capital assets, net of related debt, and \$1,265,249 is restricted to specific purposes/uses by the County.
- Business-type activities have total net assets of \$1,078,619. Invested in capital assets, net of related debt, represents \$572,901 of the total; \$15,813 of the total business-type net assets is restricted for specific uses.
- Becker County's total net assets (governmental activities and business-type activities) total \$59,960,151 for the year ended December 31, 2004. Invested in capital assets, net of related debt, represents \$37,802,727 of the total; \$1,281,062 of the total net assets are restricted for specific uses; and \$20,876,362 is unrestricted.
- The net cost of Becker County's governmental activities for the year ended December 31, 2004, was \$13,616,380. General property tax revenues and other revenue sources totaling \$15,649,240 funded the County's governmental net cost of \$13,616,380.
- Becker County's Governmental funds' fund balances increased by \$366,052. Most of the increase was due to less than expected funding cuts from the State of Minnesota.

OVERVIEW OF THE FINANCIAL STATEMENTS

Becker 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.



Becker County presents two government-wide financial statements. They are the Statement of Net Assets and the Statement of Activities. These two government-wide financial statements provide information about the activities of the County as a whole and present a longer-term view of Becker County's finances. The County's fund financial statements follow these two government-wide financial statements. For governmental activities, these statements tell how Becker County financed these services in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant/major funds. For proprietary activities, these statements provide detailed financial information relating to Sunnyside Care Center's operations and facilities. The remaining statement provides financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

Government-Wide Financial Statements--The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about Becker County as a whole and about its activities in a way that helps the reader determine whether Becker 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 Becker County's current year revenues and expenses regardless of when the County receives the revenue or pays the expenditure. These two statements report the County's net assets and changes in them. You can think of the County's net assets--the difference between assets and liabilities--as one way to measure Becker 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 Becker County.

In the Statement of Net Assets and the Statement of Activities, we divide Becker County into three kinds of activities:

- Governmental activities--Becker County reports its basic services in the “Governmental Activities” column of these reports. The activities reported by the County include general government, public safety, highways and streets, human services, health, culture and recreation, conservation of natural resources, and economic development. Becker County finances the majority of these activities with local property taxes, state-paid aids, fees, charges for services, and federal and state grants.
- Business-type activities--The Sunnyside Care Center charges a fee for services rendered to patients. Revenue is received from patients and third-party payors to help cover most of the costs to operate these facilities and pay for the services provided. The activities of the Care Center are reported here.
- Component unit--Becker County includes one separate legal entity in its report, the Becker County Housing and Economic Development Authority. It 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

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

- Governmental funds--Most of Becker County’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported in our financial statements using an accounting method called modified accrual accounting. This accounting method measures cash and other financial assets that the County can readily convert to cash. The governmental fund statements provide a detailed short-term view of the County’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are financial resources available that can be spent in the near future to finance various programs within Becker County. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.

- Proprietary funds--When the County charges customers for the services it provides--whether to outside customers or to other units of the County--these services are generally reported in proprietary funds. Proprietary funds are reported the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the County's enterprise fund (a component of proprietary funds) is the same as the business-type activities we report in the government-wide statements but provides more detail and additional information, such as cash flows, for proprietary funds.

Reporting the County's Fiduciary Responsibilities

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

THE COUNTY AS A WHOLE

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

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Assets						
Current and other assets	\$ 26,766,331	\$ 25,884,678	\$ (170,793)	\$ 954,046	\$ 26,595,538	\$ 26,838,724
Capital assets	38,301,179	37,145,096	1,889,673	533,538	40,190,852	37,678,634
Total Assets	\$ 65,067,510	\$ 63,029,774	\$ 1,718,880	\$ 1,487,584	\$ 66,786,390	\$ 64,517,358
Liabilities						
Long-term debt outstanding	\$ 2,571,531	\$ 2,976,700	\$ 334,968	\$ 199,607	\$ 2,906,499	\$ 3,176,307
Other liabilities	3,614,447	3,204,402	305,293	152,499	3,919,740	3,356,901
Total Liabilities	\$ 6,185,978	\$ 6,181,102	\$ 640,261	\$ 352,106	\$ 6,826,239	\$ 6,533,208
Net Assets						
Invested in capital assets, net of debt	\$ 37,229,826	\$ 35,640,237	\$ 572,901	\$ 533,538	\$ 37,802,727	\$ 36,173,775
Restricted	1,265,249	939,566	15,813	14,464	1,281,062	954,030
Unrestricted	20,386,457	20,268,869	489,905	587,476	20,876,362	20,856,345
Total Net Assets	\$ 58,881,532	\$ 56,848,672	\$ 1,078,619	\$ 1,135,478	\$ 59,960,151	\$ 57,984,150

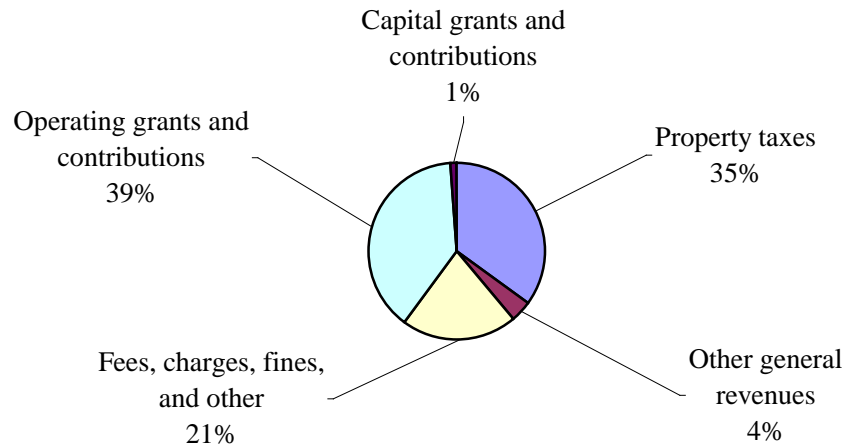
Becker County's total net assets for the year ended December 31, 2004, total \$59,960,151. The governmental activities unrestricted net assets totaling \$20,386,457 are available to finance the day-to-day operations of the governmental activities of Becker County. The remaining unrestricted net assets totaling \$489,905 are available to finance the day-to-day operations of the business-type activities of the County.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Revenues						
Program revenues						
Fees, charges, fines, and other	\$ 4,846,206	\$ 4,383,114	\$ 2,561,570	\$ 2,937,749	\$ 7,407,776	\$ 7,320,863
Operating grants and contributions	11,091,703	10,699,557	10,002	-	11,101,705	10,699,557
Capital grants and contributions	243,843	233,658	58,758	1,853	302,601	235,511
General revenues						
Property taxes	12,076,645	11,853,925	-	-	12,076,645	11,853,925
Other taxes	367,885	349,389	-	-	367,885	349,389
Grants and contributions	2,112,016	2,301,800	-	-	2,112,016	2,301,800
Other general revenues	1,092,694	326,372	3,395	20,865	1,096,089	347,237
Total Revenues	\$ 31,830,992	\$ 30,147,815	\$ 2,633,725	\$ 2,960,467	\$ 34,464,717	\$ 33,108,282
Expenses						
General government	\$ 4,160,295	\$ 4,241,083	\$ -	\$ -	\$ 4,160,295	\$ 4,241,083
Public safety	5,507,498	4,530,563	-	-	5,507,498	4,530,563
Highways and streets	6,033,259	5,088,343	-	-	6,033,259	5,088,343
Public transportation	353,412	352,974	-	-	353,412	352,974
Sanitation	1,302,265	1,155,147	-	-	1,302,265	1,155,147
Human services	10,917,399	10,944,884	-	-	10,917,399	10,944,884
Health	261,125	213,868	-	-	261,125	213,868
Culture and recreation	428,666	23,577	-	-	428,666	23,577
Conservation of natural resources	640,914	623,061	-	-	640,914	623,061
Economic development	151,882	150,841	-	-	151,882	150,841
Interest	41,417	55,036	-	-	41,417	55,036
Nursing home	-	-	2,690,584	2,683,068	2,690,584	2,683,068
Total Expenses	\$ 29,798,132	\$ 27,379,377	\$ 2,690,584	\$ 2,683,068	\$ 32,488,716	\$ 30,062,445
Increase (Decrease) in Net Assets	\$ 2,032,860	\$ 2,768,438	\$ (56,859)	\$ 277,399	\$ 1,976,001	\$ 3,045,837
Net Assets - January 1	56,848,672	54,080,234	1,135,478	858,079	57,984,150	54,938,313
Net Assets - December 31	\$ 58,881,532	\$ 56,848,672	\$ 1,078,619	\$ 1,135,478	\$ 59,960,151	\$ 57,984,150

Becker County's total revenues for the year ended December 31, 2004, were \$34,464,717. The total cost of the County's programs and services for the year ended December 31, 2004, was \$32,488,716. The net assets for the County's governmental activities increased by \$1,976,001, mainly due to expenditure restrictions implemented to offset anticipated revenue losses.

Total County Revenue (Percent of Total)



Governmental Activities

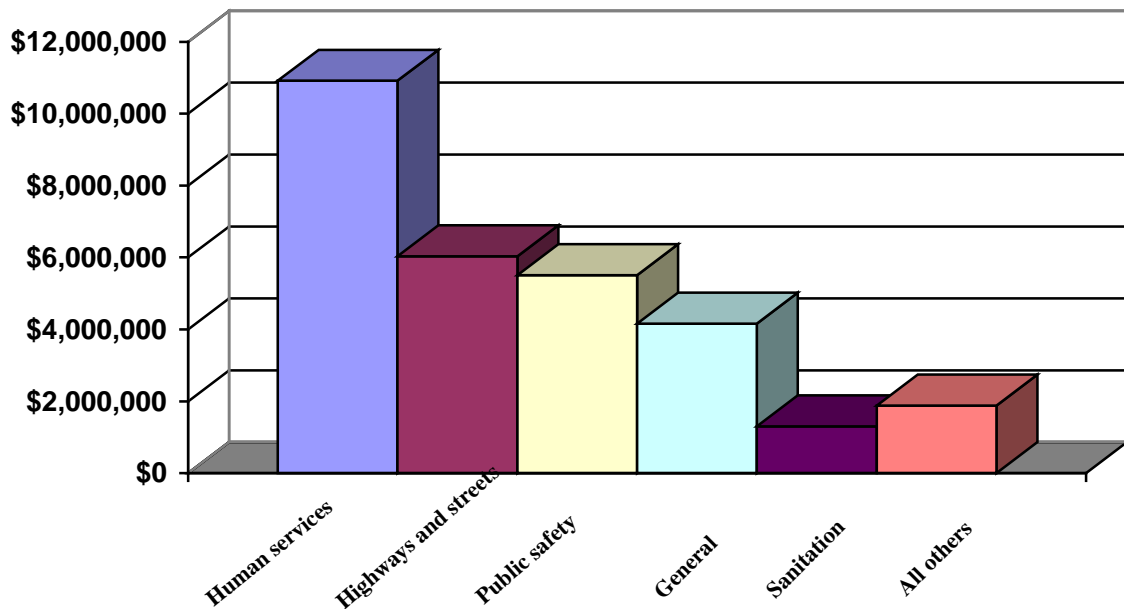
Revenues for Becker County's governmental activities for the year ended December 31, 2004, were \$31,830,992. The County's cost for all governmental activities for the year ended December 31, 2004, was \$29,798,132. As shown in the Statement of Activities, the amount that Becker County taxpayers ultimately financed for these governmental activities through local property taxation was \$12,076,645 because \$4,846,206 of the cost was paid by those who directly benefited from the programs, and \$11,335,546 was paid by other governments and organizations that subsidized certain programs with grants and contributions. Becker County paid for the remaining "public benefit" portion of governmental activities with \$3,572,595 in general revenues, primarily grants and contributions, which were not restricted to specific programs or services and with other revenues, such as interest income, mortgage registration tax, and deed tax.

Table 3 presents the cost of each of Becker 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 Becker County's taxpayers by each of these functions.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2004	2003	2004	2003
Program Expenses				
Human services	\$ 10,917,399	\$ 10,944,884	\$ 4,520,906	\$ 4,158,975
Highways and streets	6,033,259	5,088,343	750,629	715,684
General government	5,507,498	4,530,563	4,875,806	3,845,255
Public safety	4,160,295	4,241,083	2,959,829	2,903,953
Health	1,302,265	1,155,147	(383,555)	(177,469)
All others	1,877,416	1,419,357	892,765	616,650
Total Program Expenses	<u>\$ 29,798,132</u>	<u>\$ 27,379,377</u>	<u>\$ 13,616,380</u>	<u>\$ 12,063,048</u>

Governmental Activities Expenses



Business-Type Activities

Revenues of Becker County's business-type activities (see Table 2) for the year ended December 31, 2004, were \$2,633,725. Expenses of the County's business-type activities (see Table 2) for the year ended December 31, 2004, were \$2,690,584. This resulted in a decrease in net assets of \$56,859. The primary component of this decrease was due to a reduction in occupancy during the remodeling project of Sunnyside Care Center.

THE COUNTY'S FUNDS

As Becker County completed the year, its governmental funds, as presented in the balance sheet, reported a combined fund balance of \$21,670,714, which is above last year's total of \$21,304,662. Included in this year's total fund balance is a surplus of \$7,392,815 in the County's General Fund. Of this amount, \$2,750,000, will be used to cash flow the first few months of 2005 until the current year tax collections begin, and the remaining fund balance will be utilized for a courthouse addition and remodeling project scheduled to start in the spring of 2006. The General Fund's change in fund balance, a decrease of \$2,087,887, was due mainly to the creation of the Public Safety Fund on January 1, 2004, with an initial transfer of \$2,684,713. The Public Safety Fund and Environmental Fund experienced an increase in fund balance due to higher than expected revenues. The other governmental fund balances decreased. The next largest decrease after the General Fund was the Human Services Fund, \$526,741, due to expenditures for a parking lot and other planned uses of fund balance.

General Fund Budgetary Highlights

The Becker County Board of Commissioners, over the course of a budget year, may amend/revise the County's General Fund budget; however, in 2004, the County Board of Commissioners did not make budgetary amendments/revisions. If the County Board of Commissioners had made changes to the budget as originally adopted on December 23, 2003, these budget amendments/revisions would have fallen into one of three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts.

In the County's General Fund, the actual revenues were above the expected revenues by \$602,981. Total actual expenditures in the County's General Fund were above the budgeted expenditures by \$325,225. The largest General Fund expenditure category over budget was in buildings and plant--\$388,322. The General Fund revenues were greater than expected largely due to higher investment earnings and higher than anticipated intergovernmental revenue.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, Becker County had \$40,190,852 invested in a broad range of capital assets, net of depreciation. This investment in capital assets includes land, permanent right-of-way, buildings, highways and streets, and equipment (see Table 4 below). This amount represents a net increase (including additions and deductions) of \$2,512,218, or 6.7 percent, over last year.

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

	Governmental Activities		Business-Type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Land	\$ 546,410	\$ 336,640	\$ 2,325	\$ 2,325	\$ 548,735	\$ 338,965
Right-of Way	548,577	466,889	-	-	548,577	466,889
Construction in progress	169,085	206,288	1,609,975	207,917	1,779,060	414,205
Buildings	3,129,446	3,387,106	134,376	159,994	3,263,822	3,547,100
Land and building improvements	288,562	305,536	21,751	24,206	310,313	329,742
Machinery, furniture, and equipment	1,002,955	1,121,226	121,246	139,096	1,124,201	1,260,322
Infrastructure	32,616,144	31,321,411	-	-	32,616,144	31,321,411
Totals	<u>\$ 38,301,179</u>	<u>\$ 37,145,096</u>	<u>\$ 1,889,673</u>	<u>\$ 533,538</u>	<u>\$ 40,190,852</u>	<u>\$ 37,678,634</u>

The County has planned an expansion project for the courthouse building in 2006. The estimated \$7,200,000 will be funded through unreserved/undesignated fund balance and possibly general obligation bonds.

Debt

As of December 31, 2004, Becker County had \$1,120,000 in bonds outstanding compared with \$1,415,000 as of December 31, 2003--a decrease of 20.8 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Primary Government	
	2004	2003	2004	2003	2004	2003
Bonds Payable						
General obligation bonds	\$ 990,000	\$ 1,415,000	\$ -	\$ -	\$ 990,000	\$ 1,415,000
General obligation notes	-	-	130,000	-	130,000	-
Totals	<u>\$ 990,000</u>	<u>\$ 1,415,000</u>	<u>\$ 130,000</u>	<u>\$ -</u>	<u>\$ 1,120,000</u>	<u>\$ 1,415,000</u>

Becker County maintains an “A1” rating from Moody’s Investor Services. The state limits the amount of net debt that counties can issue to two percent of the market value of all taxable property in the county. The County’s outstanding net debt is significantly below this \$57,825,022 state-imposed limit.

Other obligations include capital leases and compensated absences. Becker 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 2004 budget, tax rates, and fees that will be charged for the business-type activities.

- For the past two years, the State of Minnesota has projected a budget deficit. How the State of Minnesota resolves this deficit could have a significant impact on future Becker County budgets. Major revenue sources for the County are state-paid aids, credits, and grants. Should the State of Minnesota significantly reduce these revenues or pass on costs to the County, it would have a significant impact on next year's budget.
- Becker County's net tax capacity rates have not seen significant change even though the overall net tax levy has continued to increase. This is due in great part to Becker County's strong tax base. It has a strong seasonal, residential, commercial/industrial, and agricultural base. Keeping this tax base vital and healthy is very important to the County's overall financial health and condition.
- Becker County's unemployment rate for 2003 averaged 6.6 percent. Becker County's unemployment rate for 2004 averaged 5.6 percent. The average unemployment rate for 2005 was estimated at 5.3 percent. Ultimately, if the unemployment rate increases, there could be an impact to the level of services requested by Becker County residents.
- The net property tax levies are planned to increase 3.9 percent from 2004.
- Planning for facility needs and a courthouse expansion project.
- Land development and regulation issues.
- A greater demand for services, which has resulted from the growth that Becker County has been experiencing.
- Reviewing revenue sources and considering cost-effective and efficient means for the delivery of Becker County programs and services will influence the development of future budgets.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

Becker County's financial report provides citizens, taxpayers, customers, investors, and creditors with a general overview of Becker 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 Keith Brekken, Becker County Auditor (218-846-7301), Becker County Courthouse, 913 Lake Avenue, Detroit Lakes, Minnesota 56501.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

EXHIBIT 1

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

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and pooled investments	\$ 22,925,889	\$ 515,392	\$ 23,441,281	\$ 1,369,847
Petty cash and change funds	12,600	-	12,600	-
Investments	8,157	-	8,157	-
Taxes receivable				
Current - net	310,003	-	310,003	3,725
Prior - net	204,672	-	204,672	4,169
Special assessments receivable				
Current - net	25,407	-	25,407	-
Prior - net	29,386	-	29,386	-
Noncurrent - net	11,892	-	11,892	-
Accounts receivable - net	850,381	256,804	1,107,185	73
Accrued interest receivable	126,524	-	126,524	-
Loan proceeds receivable	-	57,600	57,600	-
Rent receivable	-	-	-	250
Loans receivable	-	-	-	48,493
Contract for deed receivable	-	-	-	33,776
Property held for resale	-	-	-	955,136
Internal balances	-	(1,072,433)	(1,072,433)	(40,121)
Due from other governments	1,774,921	-	1,774,921	184,933
Due from component unit	1,893	-	1,893	-
Prepaid items	-	28,338	28,338	-
Inventories	484,606	11,772	496,378	-
Advances to other agencies	-	-	-	50,000
Contract for deed receivable	-	-	-	676,014
Investment in joint ventures	-	-	-	2,700
Restricted assets				
Donor-restricted assets	-	15,813	15,813	-
Resident trust funds	-	15,921	15,921	-
Capital assets				
Non-depreciable	1,264,072	1,612,300	2,876,372	178,000
Depreciable - net of accumulated depreciation	37,037,107	277,373	37,314,480	2,025,595
Total Assets	\$ 65,067,510	\$ 1,718,880	\$ 66,786,390	\$ 5,492,590

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

**EXHIBIT 1
(Continued)**

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

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Liabilities</u>				
Accounts payable	\$ 831,969	\$ 233,155	\$ 1,065,124	\$ 21,205
Salaries payable	462,663	56,217	518,880	-
Contracts payable	194,628	-	194,628	-
Due to other governments	571,474	-	571,474	3,000
Due to primary government	-	-	-	3,608
Accrued interest payable	15,635	-	15,635	-
Unearned revenue	1,538,078	-	1,538,078	86,348
Security deposits	-	-	-	8,843
Other current liabilities	-	-	-	3,573
Payable from restricted assets				
Resident trust funds	-	15,921	15,921	-
Long-term liabilities				
Due within one year	470,837	70,949	541,786	639,100
Due in more than one year	2,100,694	264,019	2,364,713	936,500
Total Liabilities	\$ 6,185,978	\$ 640,261	\$ 6,826,239	\$ 1,702,177
<u>Net Assets</u>				
Invested in capital assets- net of related debt	\$ 37,229,826	\$ 572,901	\$ 37,802,727	\$ 1,403,595
Restricted for				
General government	95,205	-	95,205	-
Public safety	98,920	-	98,920	-
Conservation of natural resources	162,809	-	162,809	-
Capital projects	-	15,813	15,813	-
Debt service	663,723	-	663,723	-
Streets and highways	229,569	-	229,569	-
Minnesota housing revolving loan fund	-	-	-	1,215,791
Other purposes	15,023	-	15,023	-
Unrestricted	20,386,457	489,905	20,876,362	1,171,027
Total Net Assets	\$ 58,881,532	\$ 1,078,619	\$ 59,960,151	\$ 3,790,413

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

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

		Program Revenues	
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions
<u>Functions/Programs</u>			
Primary Government			
Governmental activities			
General government	\$ 4,160,295	\$ 1,057,180	\$ 143,286
Public safety	5,507,498	246,820	384,872
Highways and streets	6,033,259	715,519	4,358,043
Public transportation	353,412	93,902	200,454
Sanitation	1,302,265	1,597,295	88,525
Human services	10,917,399	616,476	5,780,017
Health	261,125	-	-
Culture and recreation	428,666	1,675	81,456
Conservation of natural resources	640,914	360,839	55,050
Economic development	151,882	156,500	-
Interest	41,417	-	-
Total governmental activities	\$ 29,798,132	\$ 4,846,206	\$ 11,091,703
Business-type activities			
Sunnyside Care Center	2,690,584	2,561,570	10,002
Total primary government	\$ 32,488,716	\$ 7,407,776	\$ 11,101,705
Component Unit			
Housing and Economic Development Authority	<u>\$ 1,034,216</u>	<u>\$ 177,773</u>	<u>\$ 830,667</u>
General revenues			
Property taxes			
Gravel taxes			
Mortgage registry and deed tax			
Payments in lieu of tax			
Grants and contributions not restricted to specific programs			
Unrestricted investment earnings			
Miscellaneous			
Special items			
Total general revenues and special items			
Change in net assets			
Net Assets - Beginning, as restated (Note 1.F.)			
Net Assets - Ending			

EXHIBIT 2

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets			Discretely Presented Component Unit
	Governmental Activities	Primary Government Business-Type Activities	Total	
\$ -	\$ (2,959,829)	\$ -	\$ (2,959,829)	
-	(4,875,806)	-	(4,875,806)	
209,068	(750,629)	-	(750,629)	
34,775	(24,281)	-	(24,281)	
-	383,555	-	383,555	
-	(4,520,906)	-	(4,520,906)	
-	(261,125)	-	(261,125)	
-	(345,535)	-	(345,535)	
-	(225,025)	-	(225,025)	
-	4,618	-	4,618	
-	(41,417)	-	(41,417)	
\$ 243,843	\$ (13,616,380)	\$ -	\$ (13,616,380)	
58,758	-	(60,254)	(60,254)	
\$ 302,601	\$ (13,616,380)	\$ (60,254)	\$ (13,676,634)	
\$ -				\$ (25,776)
	\$ 12,076,645	\$ -	\$ 12,076,645	\$ 156,457
	128,243	-	128,243	-
	42,081	-	42,081	-
	197,561	-	197,561	-
	2,112,016	-	2,112,016	-
	819,257	3,395	822,652	12,584
	273,437	-	273,437	-
	-	-	-	(1,700)
	\$ 15,649,240	\$ 3,395	\$ 15,652,635	\$ 167,341
	\$ 2,032,860	\$ (56,859)	\$ 1,976,001	\$ 141,565
	56,848,672	1,135,478	57,984,150	3,648,848
	\$ 58,881,532	\$ 1,078,619	\$ 59,960,151	\$ 3,790,413

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

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

	<u>General</u>	<u>Public Safety</u>
<u>Assets</u>		
Cash and pooled investments	\$ 7,393,270	\$ 2,974,352
Petty cash and change funds	7,650	1,700
Undistributed cash in agency funds	13,181	-
Investments	8,157	-
Taxes receivable		
Current	49,479	106,386
Prior	108,027	-
Special assessments receivable		
Current	-	-
Prior	-	-
Noncurrent	-	-
Accounts receivable	17,879	1,879
Accrued interest receivable	126,524	-
Due from other funds	30,102	556
Due from other governments	76,262	108,265
Inventories	-	-
Due from component unit	1,893	
Total Assets	<u>\$ 7,832,424</u>	<u>\$ 3,193,138</u>

EXHIBIT 3

Road and Bridge	Human Services	Environmental Affairs	Other Governmental Funds	Total Governmental Funds
\$ 2,624,754	\$ 3,357,412	\$ 4,892,975	\$ 1,669,945	\$ 22,912,708
300	2,700	250	-	12,600
-	-	-	-	13,181
-	-	-	-	8,157
37,940	102,638	-	13,560	310,003
27,251	61,477	-	7,917	204,672
-	-	25,407	-	25,407
-	-	29,352	34	29,386
11,892	-	-	-	11,892
10,506	430,496	71,396	318,225	850,381
-	-	-	-	126,524
172,532	-	-	52,851	256,041
548,968	1,040,405	1,021	-	1,774,921
484,606	-	-	-	484,606
-	-	-	-	1,893
\$ 3,918,749	\$ 4,995,128	\$ 5,020,401	\$ 2,062,532	\$ 27,022,372

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

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

	<u>General</u>	<u>Public Safety</u>
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 157,270	\$ 79,406
Salaries payable	109,812	128,255
Contracts payable	-	-
Due to other funds	7,714	9,433
Due to other governments	36,221	77,903
Deferred revenue - unavailable	128,592	109,239
Deferred revenue - unearned	-	-
	<hr/>	<hr/>
Total Liabilities	\$ 439,609	\$ 404,236
	<hr/>	<hr/>
Fund Balances		
Reserved for		
Missing heirs	\$ 15,059	\$ -
Inventories	-	-
Law library	43,207	-
Recorder's equipment	44,498	-
Sheriff's contingency	-	5,000
Debt service	-	-
Enhanced 911	-	93,920
Road construction	-	-
Conservation of natural resources	-	-
Gravel pit closure	-	-
Attorney's contingency	7,500	-
Unreserved		
Designated for DARE	-	12,099
Designated for future expenditures	20,004	-
Designated for canteen	-	9,585
Designated for financial assurance	-	-
Designated for Sheriff's equipment and education	-	220,257
Designated for Sheriff's contingency - drugs and alcohol	-	10,000
Designated for Sheriff's auxiliary	-	16,331
Designated for employee health insurance	38,529	-
Designated for transit	129,484	-
Undesignated	7,094,534	2,421,710
Unreserved, reported in nonmajor		
Special revenue funds	-	-
	<hr/>	<hr/>
Total Fund Balances	\$ 7,392,815	\$ 2,788,902
	<hr/>	<hr/>
Total Liabilities and Fund Balances	\$ 7,832,424	\$ 3,193,138
	<hr/>	<hr/>

EXHIBIT 3
(Continued)

Road and Bridge	Human Services	Environmental Affairs	Other Governmental Funds	Total Governmental Funds
\$ 100,337	\$ 464,446	\$ 16,356	\$ 14,154	\$ 831,969
70,333	140,616	11,449	2,198	462,663
194,628	-	-	-	194,628
-	10,597	193	228,104	256,041
3,453	347,876	8,199	97,822	571,474
282,311	686,588	43,036	247,039	1,496,805
1,538,078	-	-	-	1,538,078
\$ 2,189,140	\$ 1,650,123	\$ 79,233	\$ 589,317	\$ 5,351,658
\$ -	\$ -	\$ -	\$ -	\$ 15,059
484,606	-	-	-	484,606
-	-	-	-	43,207
-	-	-	-	44,498
-	-	-	-	5,000
-	-	-	652,048	652,048
-	-	-	-	93,920
66,377	-	-	-	66,377
-	-	-	5,781	5,781
-	-	-	157,028	157,028
-	-	-	-	7,500
-	-	-	-	12,099
-	-	-	-	20,004
-	-	-	-	9,585
-	-	3,500,000	-	3,500,000
-	-	-	-	220,257
-	-	-	-	10,000
-	-	-	-	16,331
-	-	-	-	38,529
-	-	-	-	129,484
1,178,626	3,345,005	1,441,168	-	15,481,043
-	-	-	658,358	658,358
\$ 1,729,609	\$ 3,345,005	\$ 4,941,168	\$ 1,473,215	\$ 21,670,714
\$ 3,918,749	\$ 4,995,128	\$ 5,020,401	\$ 2,062,532	\$ 27,022,372

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**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)	\$	21,670,714
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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.		38,301,179
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,496,805
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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	\$	(990,000)	
Capital leases		(81,353)	
Compensated absences		(1,500,178)	
Accrued interest payable		(15,635)	
		<hr/>	<hr/>
			(2,587,166)

Net assets of governmental activities (Exhibit 1)	\$	<u>58,881,532</u>
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**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

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

	<u>General</u>	<u>Public Safety</u>
Revenues		
Taxes	\$ 2,121,414	\$ 4,030,103
Special assessments	-	-
Licenses and permits	306,129	8,052
Intergovernmental	1,442,930	892,316
Charges for services	745,119	169,672
Fines and forfeits	73,403	15,113
Gifts and contributions	-	2,267
Interest on investments	782,234	838
Miscellaneous	457,653	57,200
Total Revenues	\$ 5,928,882	\$ 5,175,561
Expenditures		
Current		
General government	\$ 4,337,558	\$ -
Public safety	-	5,051,769
Public transportation	364,161	-
Highways and streets	-	-
Sanitation	-	-
Human services	-	-
Health	213,868	-
Culture and recreation	234,046	-
Conservation of natural resources	290,089	-
Economic development	148,615	-
Intergovernmental	-	-
Debt service		
Principal retirement	6,397	4,528
Interest	1,558	839
Administrative and fiscal services	-	-
Total Expenditures	\$ 5,596,292	\$ 5,057,136
Net Change in Fund Balance	\$ 332,590	\$ 118,425

EXHIBIT 5

Road and Bridge	Human Services	Environmental Affairs	Other Governmental Funds	Total Governmental Funds
\$ 1,565,199	\$ 3,931,832	\$ -	\$ 591,203	\$ 12,239,751
5,065	-	580,173	-	585,238
21,390	-	-	-	335,571
4,863,221	6,111,373	88,525	184,470	13,582,835
153,077	-	1,005,645	1,675	2,075,188
-	-	-	-	88,516
-	-	-	10,456	12,723
37,023	-	-	-	820,095
542,672	592,940	7,007	312,394	1,969,866
\$ 7,187,647	\$ 10,636,145	\$ 1,681,350	\$ 1,100,198	\$ 31,709,783
\$ -	\$ -	\$ -	\$ -	\$ 4,337,558
-	-	-	-	5,051,769
-	-	-	-	364,161
6,942,768	-	-	-	6,942,768
-	-	1,265,704	-	1,265,704
-	10,865,629	-	-	10,865,629
-	47,257	-	-	261,125
-	-	-	280,445	514,491
-	-	-	346,899	636,988
-	-	-	-	148,615
411,974	-	-	-	411,974
21,098	-	-	425,000	457,023
3,334	-	-	41,375	47,106
-	-	-	403	403
\$ 7,379,174	\$ 10,912,886	\$ 1,265,704	\$ 1,094,122	\$ 31,305,314
\$ (191,527)	\$ (276,741)	\$ 415,646	\$ 6,076	\$ 404,469

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

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

	<u>General</u>	<u>Public Safety</u>
Other Financing Sources (Uses)		
Transfers in	\$ 264,236	\$ 2,684,713
Transfers out	<u>(2,684,713)</u>	<u>(14,236)</u>
Total Other Financing Sources (Uses)	\$ (2,420,477)	\$ 2,670,477
Net Change in Fund Balance	\$ (2,087,887)	\$ 2,788,902
Fund Balance - January 1	9,480,702	
Increase (decrease) in reserved for inventories	<u>-</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 7,392,815</u>	<u>\$ 2,788,902</u>

EXHIBIT 5
(Continued)

Road and Bridge	Human Services	Environmental Affairs	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 2,948,949
-	(250,000)	-	-	(2,948,949)
\$ -	\$ (250,000)	\$ -	\$ -	\$ -
\$ (191,527)	\$ (526,741)	\$ 415,646	\$ 6,076	\$ 404,469
1,959,553	3,871,746	4,525,522	1,467,139	21,304,662
(38,417)	-	-	-	(38,417)
\$ 1,729,609	\$ 3,345,005	\$ 4,941,168	\$ 1,473,215	\$ 21,670,714

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) **\$ 404,469**

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

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

Expenditures for general capital assets, infrastructure, and other related capital assets adjustment	\$ 3,955,434	
Current year depreciation	(2,581,864)	1,373,570

In the statement of activities, only the gain or loss on the disposal of capital assets are 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. (217,487)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 1,496,805

Revenues reported in the fund statements in the current year, but reported in the government-wide statement of activities in the prior year (1,397,341)

The capital outlay associated with a capital lease purchase is offset by another financing source in the fund statements and a payable on the government-wide statement of net assets.

Capital leases entered into (23,517)

Repayment of debt principal is an expenditure in the governmental funds. but the repayment reduces long-term liabilities in the statement of net assets.

Principal repayments

General obligation bonds	\$ 425,000	
Capital lease	32,023	457,023

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	\$ 6,092	
Change in compensated absences	(28,337)	
Change in inventories	(38,417)	(60,662)

Change in net assets of governmental activities (Exhibit 2) **\$ 2,032,860**

PROPRIETARY FUND

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**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
SUNNYSIDE CARE CENTER ENTERPRISE FUND
SEPTEMBER 30, 2004**

Assets

Current assets

Cash and pooled investments	\$ 515,392
Accounts receivable - net	256,804
Loan proceeds receivable	57,600
Inventories	11,772
Prepaid items	28,338

Total current assets	\$ 869,906
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Restricted assets

Donor-restricted assets	\$ 15,813
Resident trust funds	15,921

Total restricted assets	\$ 31,734
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Noncurrent assets

Capital assets	
Nondepreciable	\$ 1,612,300
Depreciable - net	277,373

Total noncurrent assets	\$ 1,889,673
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Total Assets	\$ 2,791,313
---------------------	---------------------

Liabilities

Current liabilities

Accounts payable	\$ 233,155
Salaries payable	56,217
Compensated absences payable - current	64,949
General obligation notes payable - current	6,000

Total current liabilities	\$ 360,321
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Current liabilities payable from restricted assets

Resident trust funds	15,921
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Noncurrent liabilities

Compensated absences payable - long-term	140,019
Advance from other funds	1,072,433
General obligation notes payable - long term	124,000

Total Liabilities	\$ 1,712,694
--------------------------	---------------------

Net Assets

Invested in capital assets, net of related debt	\$ 572,901
Restricted for capital acquisitions	15,813
Unrestricted	489,905

Total Net Assets	\$ 1,078,619
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**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
SUNNYSIDE CARE CENTER ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Operating Revenues	
Patient services revenues	\$ 2,546,814
Miscellaneous	14,756
Total Operating Revenues	\$ 2,561,570
Operating Expenses	
Employee benefits and payroll taxes	\$ 436,935
Nursing services	1,014,439
Administration and fiscal services	313,648
Other care-related	92,542
Other services and charges	108,294
Property and household	122,393
Laundry	36,950
Dietary	268,276
Housekeeping	73,904
Medical care surcharge	166,320
Depreciation	55,920
Total Operating Expenses	\$ 2,689,621
Operating Income (Loss)	\$ (128,051)
Nonoperating Revenues (Expenses)	
Noncapital grants and contributions	\$ 10,002
Interest income	3,395
Interest expense	(963)
Total Nonoperating Revenues (Expenses)	\$ 12,434
Income (loss) before contributions and transfers	\$ (115,617)
Capital contributions	58,758
Change in Net Assets	\$ (56,859)
Net Assets - January 1	1,135,478
Net Assets - December 31	\$ 1,078,619

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
SUNNYSIDE CARE CENTER ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows From Operating Activities	
Receipts from customers and users	\$ 2,644,191
Payments to suppliers	(782,202)
Payments to employees	(1,832,450)
	<hr/>
Net cash provided by (used in) operating activities	\$ 29,539
Cash Flows From Noncapital Financing Activities	
Grants and contributions	<hr/> \$ 10,002
Cash Flows From Capital and Related Financing Activities	
Acquisition of capital assets	\$ (1,240,116)
Principal paid on long-term debt	(5,430)
Interest paid on long-term debt	(963)
Proceeds from long-term debt	77,830
Construction advances	1,072,433
Capital grants and contributions	57,409
	<hr/>
Net cash provided by (used in) capital and related financing activities	\$ (38,837)
Cash Flows From Investing Activities	
Interest	<hr/> \$ 3,395
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 4,099
Cash and Cash Equivalents at October 1	<hr/> 511,293
Cash and Cash Equivalents at September 30	<hr/> \$ 515,392
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	<hr/> \$ (128,051)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 55,920
Provision for bad debts	32,055
Changes in operating assets and liabilities	
Accounts receivable	82,621
Prepaid expenses	2,842
Accounts payable	(25,861)
Accrued expenses	10,013
	<hr/>
Total adjustments	\$ 157,590
Net cash provided by operating activities	<hr/> \$ 29,539
Noncash Investing, Capital, and Financing Activities	
Proceeds of notes payable receivable at year-end	\$ 57,600
Construction activity included in accounts payable	171,939

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FIDUCIARY FUNDS

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**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

EXHIBIT 10

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

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	<u><u>\$ 884,361</u></u>
<u>Liabilities</u>	
Accounts payable	\$ 3,105
Due to other governments	785,505
Deferred credits	<u>95,751</u>
Total Liabilities	<u><u>\$ 884,361</u></u>

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**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

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

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

Becker County was established March 18, 1858, 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 Becker 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

While part of the reporting entity, the discretely presented component unit is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County. The following component unit of Becker County is discretely presented:

<u>Component Unit</u>	<u>Component Unit is Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
The Becker County Housing and Economic Development Authority (HEDA) provides services pursuant to Minn. Stat. §§ 469.090 to 469.1081 and Minn. Stat. §§ 469.001 to 469.047.	County appoints members, and the HEDA is a financial burden.	Becker County Auditor's Office 829 Lake Avenue Detroit Lakes, MN 56501

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in several joint ventures which are described in Note 5.E. The County also participates in jointly-governed organizations and related organizations which are described in Notes 5.F. and 5.G., respectively.

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continuous)

2. Fund Financial Statements

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

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

The County reports the following major governmental funds:

- The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Public Safety Special Revenue Fund is used to account for all funds to be used for public safety. Some of the activities covered under this fund include County Sheriff, County Jail, Sentence to Serve, Probation and Parole, County Coroner, Emergency Services, and Boat and Water Safety. Financing is provided by an annual property tax levy and special appropriations from the State of Minnesota.
- 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.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

- The Environmental Affairs Special Revenue Fund is used to account for the operations of a solid waste transfer station. Revenues are provided by charges for services and a special assessment against property owners.

The County reports one enterprise fund:

- The Sunnyside Care Center Enterprise Fund is used to account for the operations of the Sunnyside Care Center. The Care Center's financial position and operations are presented as of and for the year ended September 30, 2004.

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

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. Becker County considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, shared revenues, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. 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, 2004, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2004 were \$820,095.

Becker 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

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

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.

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.

The Sunnyside Care Center is the trustee of various resident funds and has a fiduciary responsibility for the administration and distribution of these funds for the residents. These funds are on deposit in a separate bank account.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

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

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

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

All receivables, including those of the discretely presented component unit, are shown net of an allowance for uncollectibles. For the enterprise fund, management provides for uncollectible amounts and contractual allowances through a charge to income from operations and a credit to valuation allowances based on its assessment of the current status of accounts receivable. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowances and a credit to accounts receivable.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due October 15.

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

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Inventories and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than the capitalization threshold and an estimated useful life in excess of one year. 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.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

The capitalization threshold for governmental activities was as follows:

<u>Assets</u>	<u>Capitalization Threshold</u>
Land	\$ 1
Buildings	1
Building improvements	25,000
Land improvements	25,000
Public domain infrastructure	1
Furniture, equipment, and vehicles	25,000

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the County did not have any capitalized interest.

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

<u>Assets</u>	<u>Years</u>
Buildings	10 - 40
Building improvements	5 - 20
Land improvements	8 - 22
Public domain infrastructure	25 - 50
Furniture, equipment, and vehicles	4 - 12

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Compensated Absences

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

8. Deferred Revenue

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

9. Long-Term Obligations

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

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

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Fund Equity

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

11. Use of Estimates

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

E. Reclassifications

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

F. Prior Period Adjustment

In the 2003 financial statements, the County understated net assets in the amount of \$920,097 by understating net capital assets. The net assets account has been restated to show this correction.

	<u>Governmental Activities</u>
Net Assets - January 1	\$ 55,928,575
Prior period adjustment	<u>920,097</u>
Net Assets - January 1, as restated	<u><u>\$ 56,848,672</u></u>

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget - Nonmajor Funds

The following is a summary of the individual nonmajor fund that had expenditures in excess of budget for the year ended December 31, 2004:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Forfeited Tax Fund	\$ 279,321	\$ 243,250	\$ 36,071

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Cash and pooled investments	\$ 23,441,281
Petty cash and change funds	12,600
Investments	8,157
Restricted assets	
Donor-restricted assets	15,813
Resident trust funds	15,921
Component units	
Cash and pooled investments	1,369,847
Fiduciary funds	
Agency funds	
Cash and pooled investments	<u>884,361</u>
 Total Cash and Investments	 <u>\$ 25,747,980</u>

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$4,857,554. The bank balance deposit amount was \$6,100,250. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 353,931
Collateralized with securities held by the pledging financial institution's agent in the County's name	<u>5,746,319</u>
Total covered deposits	\$ 6,100,250
Uncollateralized	<u>-</u>
Total	<u><u>\$ 6,100,250</u></u>

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

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

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

	Category			Fair
	1	2	3	Value
Portion of jumbo certificates of deposit	\$ 73,079	\$ -	\$ 191,151	\$ 264,230
Money market savings held by brokers	266,742	-	644,072	910,814
Commercial paper	6,148	-	109,277	115,425
Government securities				
FHLB	1,230,752	-	6,596,539	7,827,291
FHLMC	299,866	-	851,065	1,150,931
FNMA	466,977	-	4,561,898	5,028,875
GNMA	3,468	-	3,452	6,920
U.S. Treasury Note	152,968	-	2,718,722	2,871,690
Total Investments	<u>\$ 2,500,000</u>	<u>\$ -</u>	<u>\$ 15,676,176</u>	\$ 18,176,176
Add (Deduct)				
Deposits				4,857,554
Change funds				12,600
Cash on hand				3,687
Mutual funds				1,362,622
Change in Sunnyside Care Center Enterprise Fund cash from September 30 to December 31, 2004				<u>(34,506)</u>
Total Cash and Investments - Primary Government				\$ 24,378,133
Component Unit - Deposits				<u>1,369,847</u>
Total Cash and Investments				<u>\$ 25,747,980</u>

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2004, for the County's governmental activities and business-type activities, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Taxes	\$ 514,675	\$ -
Special assessments	66,685	-
Accounts	850,381	-
Interest	126,524	-
Due from other governments	1,774,921	-
Due from component unit	<u>1,893</u>	<u>-</u>
Total Governmental Activities	<u>\$ 3,335,079</u>	<u>\$ -</u>
Business-Type Activities		
Accounts	\$ 256,804	\$ -
Loan proceeds receivable	<u>57,600</u>	<u>-</u>
Total Business-Type Activities	<u>\$ 314,404</u>	<u>\$ -</u>

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

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

Governmental Activities

	Beginning Balance (Restated)	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 336,640	\$ 209,770	\$ -	\$ 546,410
Right-of-way	466,889	81,688	-	548,577
Construction in progress	206,288	309,732	346,935	169,085
Total capital assets not depreciated	\$ 1,009,817	\$ 601,190	\$ 346,935	\$ 1,264,072
Capital assets depreciated				
Buildings	\$ 7,517,503	\$ -	\$ -	\$ 7,517,503
Land improvements	339,470	-	-	339,470
Machinery, furniture, and equipment	3,233,553	348,760	262,169	3,320,144
Infrastructure	50,301,269	3,352,419	-	53,653,688
Total capital assets depreciated	\$ 61,391,795	\$ 3,701,179	\$ 262,169	\$ 64,830,805
Less: accumulated depreciation for				
Buildings	\$ 4,130,397	\$ 257,660	\$ -	\$ 4,388,057
Land improvements	33,934	16,974	-	50,908
Machinery, furniture, and equipment	2,112,327	249,544	44,682	2,317,189
Infrastructure	18,979,858	2,057,686	-	21,037,544
Total accumulated depreciation	\$ 25,256,516	\$ 2,581,864	\$ 44,682	\$ 27,793,698
Total capital assets depreciated, net	\$ 36,135,279	\$ 1,119,315	\$ 217,487	\$ 37,037,107
Governmental Activities Capital Assets, Net	\$ 37,145,096	\$ 1,720,505	\$ 564,422	\$ 38,301,179

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 2,325	\$ -	\$ -	\$ 2,325
Construction in progress	207,917	1,402,058	-	1,609,975
Total capital assets not depreciated	\$ 210,242	\$ 1,402,058	\$ -	\$ 1,612,300
Capital assets depreciated				
Buildings	\$ 765,769	\$ -	\$ 78,250	\$ 687,519
Land improvements	149,821	-	1,351	148,470
Machinery, furniture, and equipment	372,298	15,129	8,245	379,182
Total capital assets depreciated	\$ 1,287,888	\$ 15,129	\$ 87,846	\$ 1,215,171
Less: accumulated depreciation for				
Buildings	\$ 605,775	\$ 22,524	\$ 75,156	\$ 553,143
Land improvements	125,615	1,266	162	126,719
Machinery, furniture, and equipment	233,202	32,130	7,396	257,936
Total accumulated depreciation	\$ 964,592	\$ 55,920	\$ 82,714	\$ 937,798
Total capital assets depreciated, net	\$ 323,296	\$ (40,791)	\$ 5,132	\$ 277,373
Business-Type Activities Capital Assets, Net	\$ 533,538	\$ 1,361,267	\$ 5,132	\$ 1,889,673

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities	
General government	\$ 143,709
Public safety	133,380
Highways and streets, including depreciation of infrastructure assets	2,202,397
Human services	14,257
Public transportation	28,601
Culture and recreation	26,312
Conservation of natural resources	659
Sanitation	32,549
	<hr/>
Total Depreciation Expense - Governmental Activities	\$ 2,581,864
	<hr/>
Business-Type Activities	
Sunnyside Care Center	\$ 55,920
	<hr/>

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Human Services	\$ 8,962
	Other governmental	21,140
		<hr/>
Total Due to General Fund		\$ 30,102
		<hr/>
Public Safety	Human Services	\$ 556
		<hr/>

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Road and Bridge	General	\$ 7,714
	Public Safety	9,433
	Human Services	1,079
	Environmental Affairs	193
	Other governmental	<u>154,113</u>
Total Due to Road and Bridge Fund		<u>\$ 172,532</u>
Other governmental	Other governmental	<u>\$ 52,851</u>
Total Due To/From Other Funds		<u><u>\$ 256,041</u></u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

2. Advances From/To Other Funds

The General Fund advanced \$1,072,433 to the Sunnyside Care Center to pay for costs related to a construction project at the care center. Sunnyside Care Center repaid the advance prior to December 31, 2004. The Sunnyside Care Center Enterprise Fund financial statements are as of September 30, 2004. Therefore, at year-end, the advance payable is reported in the Enterprise Fund but the advance receivable is not reported in the General Fund.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

3. Detailed Notes on All Funds

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

3. Interfund Transfers

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

Transfers to General Fund from		
Public Safety Fund	\$ 14,236	Provide funding
Human Services Fund	250,000	Provide funding
	<hr/>	
Total transfers to General Fund	\$ 264,236	
Transfers to Public Safety Fund From		
General Fund	2,684,713	Provide funds to start new fund
	<hr/>	
Total Interfund Transfers	<u>\$ 2,948,949</u>	

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts	\$ 831,969	\$ 233,155
Salaries	462,663	56,217
Contracts	194,628	-
Due to other governments	571,474	-
Interest	15,635	-
	<hr/>	<hr/>
Total Payables	<u>\$ 2,076,369</u>	<u>\$ 289,372</u>

2. Construction Commitments

The government has active construction projects as of December 31, 2004. The projects include the following (amounts in thousands):

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Human Services 2nd floor	<u>\$ 230,119</u>	<u>\$ 507,781</u>

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Postemployment Benefits

Retirees

The County pays the health insurance for qualified retired employees (employees who exercised an early retirement option between March 12 and April 11, 1991) from retirement until age 65, when they become eligible for Medicare.

As of year-end, the County has one eligible participant. During 2004, the County expended \$12,390 for these benefits.

4. Leases

Operating Leases

The County leases space under noncancelable operating leases. Total costs for such leases were \$146,339 for the year ended December 31, 2004. The future minimum lease payments for these leases are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2005	\$ 209,636
2006	143,160
2007	143,160
2008	143,160
2009	143,160
2010 - 2014	641,911

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Leases (Continued)

Capital Leases

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

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Governmental Activities					
2001 postage machine	2009	Monthly	\$ 487	\$ 23,517	\$ 23,517
2002 dictaphone equipment	2007	Semi-Annual	2,683	23,412	12,413
2002 John Deere 644H wheel loader	2006	Annual	24,432	105,745	45,423
Total Governmental Activities Capital Leases					<u>\$ 81,353</u>

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

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2005	\$ 35,641
2006	35,641
2007	8,525
2008	5,842
2009	5,841
Total minimum lease payments	\$ 91,490
Less: amount representing interest	<u>(10,137)</u>
Present Value of Minimum Lease Payments	<u>\$ 81,353</u>

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Long-Term Debt

Governmental Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
General obligation bonds					
2001 G.O. Courthouse		\$80,000 -			
Refunding Bonds	2007	\$100,000	3.5028	\$ 505,000	\$ 295,000
2001 G.O. Jail Refunding		\$140,000 -			
Bonds	2006	\$350,000	3.1103	<u>1,175,000</u>	<u>695,000</u>
Total General Obligation Bonds				<u>\$ 1,680,000</u>	<u>\$ 990,000</u>

6. Debt Service Requirements

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

Governmental Activities

<u>Year Ending December 31</u>	<u>General Obligation</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 440,000	\$ 27,831
2006	450,000	12,438
2007	<u>100,000</u>	<u>2,000</u>
Total	<u>\$ 990,000</u>	<u>\$ 42,269</u>

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Changes in Long-Term Liabilities

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 1,415,000	\$ -	\$ 425,000	\$ 990,000	\$ 440,000
Capital leases	89,859	23,517	32,023	81,353	30,837
Compensated absences	1,471,841	818,094	789,757	1,500,178	-
Governmental Activity Long-Term Liabilities	<u>\$ 2,976,700</u>	<u>\$ 841,611</u>	<u>\$ 1,246,780</u>	<u>\$ 2,571,531</u>	<u>\$ 470,837</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation note	\$ -	\$ 135,430	\$ 5,430	\$ 130,000	\$ 6,000
Compensated absences	199,607	5,361	-	204,968	64,949
Business-Type Activity Long-Term Liabilities	<u>\$ 199,607</u>	<u>\$ 140,791</u>	<u>\$ 5,430</u>	<u>\$ 334,968</u>	<u>\$ 70,949</u>

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

Funding Policy

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

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

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

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2004	\$ 467,817	\$ 102,856	\$ 65,408
2003	457,958	99,981	56,422
2002	446,947	93,379	52,670

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

B. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer, deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D.

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

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

The County's contributions for the years ending December 31, 2004 and 2003, were \$3,487, and \$3,431, respectively, equal to the contractually required contributions for each year as set by state statute.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. To cover other risk, the County carries commercial insurance. The County retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

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

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

The Sunnyside Care Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The Sunnyside Care Center's professional liability insurance for claim losses of less than \$1,000,000 per claim and \$3,000,000 per year covers professional liability claims incurred during a policy year ("claims-incurred" coverage). The professional liability insurance policy is renewable annually and has been renewed by the insurance carrier for the annual period extending to February 1, 2005.

B. Reimbursement Arrangement with Third-Party Payors

The Sunnyside Care Center has agreements with third-party payors, which provide payments to the organization at amounts different from its established rate. A summary of the payment arrangements with major third-party payors follows.

Medicare

A licensed nursing facility which participates in the Medicaid program must also participate in the Medicare program. This program is administered by the Federal Department of Health and Human Services' for Medicare and Medicaid services. The Medicare program reimburses the Care Center using a prospective payment system where each resident is assigned to a Resource Utilization Group (RUG). Each RUG is reimbursed based on a predetermined daily per diem rate for that RUG.

Medicaid

Routine services rendered to nursing home residents who are beneficiaries of the Medicaid program or who pay from private resources are paid according to a schedule of prospectively determined daily rates determined by Minnesota's Medicaid program. A rate is assigned to each nursing home resident based on the resident's ability to perform certain activities of daily living and on certain other clinical factors.

The State of Minnesota uses a Minimum Data Set resident assessment system. As a result, Medicaid and private paying residents are classified into one of 34 RUGs for purposes of establishing payment rates. Effective July 1, 2003, the State of Minnesota and private residents have incurred only small increases, if any, for the nonoperating component of the payment rate since July 1, 2002.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Reimbursement Arrangement with Third-Party Payors (Continued)

Insurance

The Care Center has also entered into payment agreements with certain commercial insurance carriers. The basis of payments to the Care Center under these agreements includes prospectively determined daily rates.

Occupancy Percentages

During the year ended September 30, 2004, the occupancy percentages and the percentages of residents' days covered under the Medicaid and Medicare programs were as follows:

Total occupancy - Care Center	83.1%
Medicaid	74.5
Medicare	5.1

Net Resident Service Revenue

Sunnyside Care Center net resident service revenue for the year consists of the following:

Gross resident service revenue	
Medicare	\$ 151,808
Medicaid	1,790,976
Private pay	332,800
HMO	114,268
Ancillary services	291,723
	<hr/>
Total	\$ 2,681,575
Provisions for bad debts	(32,055)
Contractual adjustments	(102,706)
	<hr/>
Net Resident Service Revenue	<u>\$ 2,546,814</u>

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

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

C. Claims and Litigation

The County, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The County Attorney estimates that the potential claims against the County not covered by insurance resulting from such litigation would not materially affect the financial statements.

D. 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.

E. Joint Ventures

Multi-County Nursing Service

The Multi-County Nursing Service, established in 1977 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, includes Becker, Mahnomen, and Norman Counties. The purpose of the Multi-County Nursing Service is the development, implementation, and operation of public health services throughout the member counties.

Control of the Multi-County Nursing Service is vested in the Becker-Norman-Mahnomen Multi-County Board of Health, which consists of seven members. As provided in the bylaws, Mahnomen and Norman Counties have two members each, and Becker County has three members.

In the event of withdrawal from the Becker-Norman-Mahnomen Multi-County Board of Health, the withdrawing county is not entitled to any reimbursement of funds contributed during the course of its membership, except to the extent of any surplus uncommitted monies remaining in the operating account upon expiration of the fiscal year of the county's withdrawal. Such surplus shall be distributed in the proportion that the withdrawing county's contribution bears to the aggregate contribution of all member parties for the year of withdrawal. Funds utilized for capital asset acquisition shall be paid only at the time of sale of such assets.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

E. Joint Ventures

Multi-County Nursing Service (Continued)

On June 24, 2003, the Becker County Board passed a resolution to withdraw from the Multi-County Nursing Service as of January 1, 2005. Norman County became the fiscal agent.

The Multi-County Nursing Service's long-term debt consisted of \$19,512 for compensated absences and \$1,519 for capital leases at December 31, 2004. Financing is provided by state and federal grants, appropriations from the counties, charges for services, and miscellaneous revenues. Becker County's contribution for 2004 was \$213,868.

Complete financial information can be obtained from:

Norman, Mahnomen Public Health
Room 107
16 East 3rd Avenue
Ada, Minnesota 56510

West Central Area Agency on Aging

The West Central Area Agency on Aging was established June 2, 1982, by a joint powers agreement among Becker, Clay, Douglas, Grant, Otter Tail, Pope, Stevens, Traverse, and Wilkin Counties. The agreement was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the nine-county area. Each county may be assessed a proportional share of the 25 percent of the administrative costs incurred in the carrying out of this agreement. Each county's proportional share of this 25 percent of the administrative costs will be based upon the number of persons age 60 or older living within that county. In 2004, Becker County paid \$3,780 to the West Central Area Agency on Aging as its share of the 2004 assessment.

Any county may withdraw by providing notice to the chair of the Board 90 days prior to the beginning of the fiscal year. The chair shall forward a copy to each of the counties. Withdrawal shall not act to discharge any liability incurred or chargeable to any county before the effective date of withdrawal.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

E. Joint Ventures

West Central Area Agency on Aging (Continued)

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

Complete financial information can be obtained from:

Area Agency on Aging
P. O. Box 726
Fergus Falls, Minnesota 56537

Northwestern Counties Data Processing Security Association

The Northwestern Counties Data Processing Security Association (NCDPSA) was formed in 1994 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Marshall, Pennington, Polk, Roseau, and Wadena Counties. The purpose of the NCDPSA is to provide a mechanism whereby the counties may cooperatively provide for a data processing disaster recovery plan and back-up system.

Control of the NCDPSA is vested in the NCDPSA Joint Powers Board, which comprises one County Commissioner from each member county. In the event of dissolution, the net assets of the NCDPSA at that time shall be distributed to the respective member counties in proportion to their contribution.

The NCDPSA has no long-term debt. Financing is provided by grants from the State of Minnesota and appropriations from member counties. Becker County did not provide funding to this organization in 2004.

Separate financial information can be obtained from:

Clearwater County Auditor
213 North Main Avenue
Bagley, Minnesota 56621

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

E. Joint Ventures (Continued)

Becker County Children's Initiative

The Becker County Children's Initiative (BCCI) collaborative was established in 1995, under the authority of the Joint Powers Act, pursuant to Minn. Stat. §§ 471.59 and 124D.23. The BCCI includes Becker County; Independent School District Nos. 21, 22, and 23; the White Earth Tribal Council; and the Multi-County Board of Health. The purpose of the BCCI is to provide coordinated family services and to commit resources to an integrated fund.

Control of the BCCI is vested in a Board of Directors. Becker County has two members on the Board.

In the event of a withdrawal from the BCCI collaborative, the withdrawing party shall give a 180-day notice. This also means that the BCCI may no longer meet the requirements of Minn. Stat. § 124D.23 as a family service collaborative.

The withdrawing party shall not be entitled to any compensation as long as the BCCI continues its existence. Should the BCCI cease to exist, all surplus funds shall be returned to the parties in proportion to their contributions. All other assets will be disposed of by law and to best accomplish the continuation purposes of the BCCI.

The BCCI has no long-term debt. Financing is provided by state and federal grants, appropriations from joint powers members, and miscellaneous revenues. In 2004, Becker County was not required to make a contribution to the BCCI.

Separate financial information can be obtained from:

Becker County Children's Initiative
P. O. Box 24
Detroit Lakes, Minnesota 56502-0024

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

E. Joint Ventures (Continued)

West Central Minnesota Drug Task Force

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

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

Beginning January 1, 2004, Douglas County became the fiscal agent for the Task Force. Financing and equipment will be provided by the full-time and associate member agencies. Becker County provided \$1,000 to this organization in 2004.

F. Jointly-Governed Organizations

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

Becker County Airport Commission

Becker County and the City of Detroit Lakes created the Becker County Airport Commission. The County and the City each appoint two members to the Commission. The County and the City alternately appoint the fifth Commission member for a three-year term. The Commission is reported as a special revenue fund in the City of Detroit Lakes' financial statements. The County appropriated \$70,318 for airport operations in 2004.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations (Continued)

Western Area City/County Co-Op

Becker County and 24 other cities and counties created the Western Area/City County Co-op (WACCO). Each member of WACCO is authorized to appoint one member to the Board of Directors. The County paid \$5,000 in dues during 2004.

District IV Transportation Planning

Becker 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.

G. Related Organizations

The County Board is responsible for appointing the members of other organizations, but the County's accountability for these organizations does not extend beyond making the appointments. The County Board appoints the Board members of the Pelican River Watershed District and the Cormorant Lakes Watershed District.

H. Management Agreement

The Sunnyside Care Center is managed by Ecumen. The Care Center is under a three-year agreement, which expires August 15, 2006. The monthly management fee was 4.3 percent of annual operating revenues. Management fees amounted to \$109,661 for the year ended September 30, 2004.

Certain employees of Ecumen's Board perform services for the Care Center. Payments to Ecumen for salaries and related expenses amounted to \$45,157 for the year ended September 30, 2004. The Care Center had unpaid amounts pertaining to the above transactions amounting to \$37,455 at September 30, 2004.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

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

I. Subsequent Events

On November 18, 2004, Becker County issued \$1,250,000 Taxable General Obligation Nursing Home Bonds, Series 2004A. The bonds are due in varying annual installments of \$20,000 - \$90,000 through February 2034 with interest ranging from 5.00 to 5.65 percent. Proceeds of the bond issue were used to repay construction advances made by Becker County during 2004. The bonds are general obligations of the County for which its full faith, credit, and taxing powers are pledged without limitation as to rate or amount. It is the intent of the County that the Care Center reimburse it for all interest and principal payments made on these bonds.

6. Becker County Housing and Economic Development Authority

A. Summary of Significant Accounting Policies

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

1. Financial Reporting Entity

The HEDA was established May 27, 1997, having all of the powers and duties of an economic development authority under Minn. Stat. §§ 469.090 to 469.1081. The Housing Department was added May 1, 1999, and has all of the powers and duties of a housing and redevelopment authority under Minn. Stat. §§ 469.001 to 469.047. The HEDA is governed by a seven-member Board appointed by the Becker County Board of Commissioners.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

6. Becker County Housing and Economic Development Authority

A. Summary of Significant Accounting Policies

1. Financial Reporting Entity (Continued)

The HEDA is a component unit of Becker County because Becker County is financially accountable for the HEDA. The HEDA's financial statements are discretely presented in the Becker County financial statements.

2. Basic Financial Statements

Government-Wide Statements

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

In the government-wide statement of net assets, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The HEDA'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 HEDA 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 HEDA's governmental activities and different business-type activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

6. Becker County Housing and Economic Development Authority

A. Summary of Significant Accounting Policies

2. Basic Financial Statements (Continued)

Fund Financial Statements

The fund financial statements provide information about the HEDA's funds. Separate statements for each fund category--governmental and proprietary--are presented.

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

The HEDA reports the following major governmental fund:

- The General Fund is the HEDA'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 HEDA reports the following major enterprise fund:

- The Enterprise Fund is used to account for the operations of the HEDA's housing department.

3. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded 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.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

6. Becker County Housing and Economic Development Authority

A. Summary of Significant Accounting Policies

3. Measurement Focus and Basis of Accounting (Continued)

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

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

4. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents

The HEDA has defined cash and cash equivalents to include cash on hand and demand deposits.

Deposits and Investments

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

- (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;

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

6. Becker County Housing and Economic Development Authority

A. Summary of Significant Accounting Policies

4. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments (Continued)

- (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.

Receivables and Payables

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

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

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

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

6. Becker County Housing and Economic Development Authority

A. Summary of Significant Accounting Policies

4. Assets, Liabilities, and Net Assets or Equity

Receivables and Payables (Continued)

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due October 15.

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

Property Held for Resale

Real property that is acquired for subsequent resale for redevelopment purposes and not as an investment program is recorded at the lesser of cost or net realizable value. Property held for resale is offset by a fund balance reserve account in the General Fund.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the HEDA as assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the HEDA capitalized interest in the amount of \$17,663.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

6. Becker County Housing and Economic Development Authority

A. Summary of Significant Accounting Policies

4. Assets, Liabilities, and Net Assets or Equity

Capital Assets (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	40
Furniture, equipment, and vehicles	3 - 7

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental and proprietary funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Long-Term Obligations

In the government-wide financial statements and in proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets.

In the governmental fund financial statements, 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.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

6. Becker County Housing and Economic Development Authority

A. Summary of Significant Accounting Policies

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

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.

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.

B. Detailed Notes on All Funds

1. Assets

Deposits and Investments

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

Governmental activities	\$ 645,026
Business-type activities	<u>724,821</u>
Total Cash and Investments	<u><u>\$ 1,369,847</u></u>

Minn. Stat. §§ 118A.02 and 118A.04 authorize the HEDA to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board. At December 31, 2004, for the General Fund and at June 30, 2004, for the Enterprise Fund, the carrying amount of the HEDA's deposits totaled \$1,369,847. The bank balance deposit amount was \$1,515,894. Minnesota statutes require that all HEDA deposits be covered by insurance, surety bond, or collateral.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

6. Becker County Housing and Economic Development Authority

B. Detailed Notes on All Funds

1. Assets

Deposits and Investments (Continued)

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004, for the General Fund and at June 30, 2004, for the Enterprise Fund.

	<u>General Fund</u>	<u>Enterprise Fund</u>	<u>Total</u>
Covered Deposits			
Insured, or collateralized with securities held by the HEDA or its agent in the HEDA's name	\$ 643,149	\$ 200,000	\$ 843,149
Collateralized with securities held by the pledging financial institution's agent in the HEDA's name	<u>-</u>	<u>672,745</u>	<u>672,745</u>
Total covered deposits	\$ 643,149	\$ 872,745	\$ 1,515,894
Uncollateralized	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 643,149</u>	<u>\$ 872,745</u>	<u>\$ 1,515,894</u>

Receivables

No allowance for uncollectible accounts has been made for the HEDA's governmental activities or for business-type activities.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

6. Becker County Housing and Economic Development Authority

B. Detailed Notes on All Funds

1. Assets (Continued)

Loans Receivable--Governmental Activities

Loans receivable consist of cash loans to private enterprises or nonprofit organizations. The following is a summary of changes in loans receivable for the year ended December 31, 2004.

	Balance January 1	Additions	Payments	Balance December 31
Loans receivable				
Midwest Minnesota Community Development Corporation	\$ 321,416	\$ -	\$ 321,416	\$ -
Marine Innovations	6,113	-	1,662	4,451
EZ Roll Lakes Equipment	50,000	-	5,958	44,042
Total	<u>\$ 377,529</u>	<u>\$ -</u>	<u>\$ 329,036</u>	<u>\$ 48,493</u>

Contract for Deed--Business-Type Activities

The following is a summary of contracts for deed receivable resulting from the sale of Minnesota urban and rural homesteading homes to individuals for the year ended June 30, 2004.

Balance - July 1, 2003	\$ 580,976
New loans	161,400
Payments	<u>(32,586)</u>
Balance - June 30, 2004	\$ 709,790
Less: current portion	<u>(33,776)</u>
Long-Term Portion	<u>\$ 676,014</u>

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

6. Becker County Housing and Economic Development Authority

B. Detailed Notes on All Funds

1. Assets

Contract for Deed--Business-Type Activities (Continued)

Contract for Deed	Date	Interest Rate (%)	Due Date	Monthly Payment	Balance June 30
Patty Sweeney	October 1, 1999	-	October 1, 2014	\$ 297	\$ 72,528
Lee Ward	February 1, 2000	-	January 1, 2015	107	65,018
Cynthia Burton	March 1, 2001	-	March 1, 2021	282	84,888
Andrew Yorgason	September 1, 2001	-	September 1, 2019	252	65,156
Michael Steffl	September 1, 2002	-	September 1, 2017	437	68,072
Katrina Albrecht	May 1, 2003	-	May 1, 2028	370	94,367
Joseph Stringfield	October 1, 2002	-	October 1, 2018	434	98,719
Sean Grove and Amy Olson	June 1, 2004	-	June 1, 2024	356	86,042
Christopher Bromeling	June 1, 2004	-	June 1, 2024	280	75,000
Total					<u>\$ 709,790</u>

Capital Assets

Capital asset activity for the year ended June 30, 2004, for business-type activities was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	<u>\$ 178,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 178,000</u>
Capital assets depreciated				
Buildings	\$ 2,291,396	\$ 258,480	\$ -	\$ 2,549,876
Machinery, furniture, and equipment	<u>96,726</u>	<u>4,490</u>	<u>-</u>	<u>101,216</u>
Total capital assets depreciated	<u>\$ 2,388,122</u>	<u>\$ 262,970</u>	<u>\$ -</u>	<u>\$ 2,651,092</u>

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

6. Becker County Housing and Economic Development Authority

B. Detailed Notes on All Funds

1. Assets

Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for Buildings	\$ 481,348	\$ 53,410	\$ -	\$ 534,758
Machinery, furniture, and equipment	87,520	3,219	-	90,739
Total accumulated depreciation	\$ 568,868	\$ 56,629	\$ -	\$ 625,497
Total capital assets depreciated, net	\$ 1,819,254	206,341	\$ -	\$ 2,025,595
Business-Type Activities Capital Assets, Net	\$ 1,997,254	\$ 206,341	\$ -	\$ 2,203,595

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

Business-Type Activities	
Public housing	\$ 48,736
Other housing	7,893
Total Depreciation Expense - Business-Type Activities	\$ 56,629

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

6. Becker County Housing and Economic Development Authority

B. Detailed Notes on All Funds (Continued)

2. Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Due To/From Other Funds

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ -	\$ 40,121
Enterprise Fund	-	-
	<u> </u>	<u> </u>
Total Due To and From	\$ -	\$ 40,121
Change in amounts owed to the General Fund from June 30 to December 31, 2004	<u>40,121</u>	<u>-</u>
Total Due To/From Other Funds	<u><u>\$ 40,121</u></u>	<u><u>\$ 40,121</u></u>

The amount due to the Enterprise Fund represents Enterprise Fund program revenue receipted into the General Fund.

Due To/From Becker County

Governmental Activities

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Becker County - General Fund	HEDA - General Fund	<u>\$ 1,893</u>

Business-Type Activities

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Becker County - General Fund	HEDA - Enterprise Fund	<u>\$ 1,715</u>

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

6. Becker County Housing and Economic Development Authority

B. Detailed Notes on All Funds (Continued)

3. Liabilities

Payables

Payables at December 31, 2004, for governmental activities and at June 30, 2004, for business-type activities were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts	\$ -	\$ 21,205
Due to other governments	<u>3,000</u>	<u>-</u>
Total Payables	<u>\$ 3,000</u>	<u>\$ 21,205</u>

Construction Commitments

The HEDA has an active construction project for business-type activities as of June 30, 2004. The project is as follows:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Business-Type Activities		
Housing construction projects	<u>\$ 195,374</u>	<u>\$ 333,954</u>

Short-Term Debt

The HEDA's business-type activities issued a line of credit to provide interim financing until it received the proceeds from the Minnesota Housing Financing Agency for a Preservation Affordable Rental Investment Fund Program. An additional line of credit was obtained during the year ending June 30, 2004. All was paid off at June 30, 2004. Changes in the line of credit are:

Balance - July 1, 2003	\$ 514,570
Additions	230,965
Payments	<u>(745,535)</u>
Balance - June 30, 2004	<u>\$ -</u>

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

6. Becker County Housing and Economic Development Authority

B. Detailed Notes on All Funds

3. Liabilities (Continued)

Long-Term Debt

Governmental Activities

The HEDA and the Lake Park Economic Development Authority have a cost-sharing arrangement to each pay one-half of the costs of the Lake Park South 10 Industrial Park Project, which is to be partially funded by the Wild Rice Promissory Note. The full amount of the note is \$144,000, of which the HEDA and the Lake Park Economic Development Authority are both jointly and severally responsible to repay. The HEDA and the Lake Park Economic Development Authority have each opened irrevocable letters of credit in the amount of \$72,000 to secure the note. The entire amount of this note payable is reported on the Statement of Net Assets of the HEDA, along with a receivable for the Lake Park Economic Development Authority's share of the note repayment.

The following is a schedule of long-term debt for governmental activities at December 31, 2004.

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Monthly Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
Wild Rice Promissory Note	2013	\$1,500	0.00	\$ 144,000	<u>\$ 144,000</u>

Business-Type Activities

The HEDA entered into an \$800,000 mortgage loan agreement with the Minnesota Housing Finance Agency in 2004 for the modernization of rental units of low-income persons. The principal sum is due and payable on December 1, 2032. However, the Minnesota Housing Finance Agency has passed a resolution that the maturity date of the loan shall be co-terminus with the Annual Contribution Contract (ACC), with payments deferred until maturity, and with annual renewals thereafter for so long as the U.S. Department of Housing and Urban Development allows renewals of the ACC.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

6. Becker County Housing and Economic Development Authority

B. Detailed Notes on All Funds

3. Liabilities

Long-Term Debt

Business-Type Activities (Continued)

The HEDA entered into two loan agreements in the amounts of \$309,000 and \$322,600 with the Minnesota Housing Finance Agency to be used for the Community Revitalization Fund Program. The loans are to be paid from the proceeds of the sale of homes that are projects in the program.

The following is a schedule of long-term debt for business-type activities at June 30, 2004.

<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 June 30, 2004</u>
Loans payable	2004	N/A	2.00	\$ 631,600	\$ 631,600
Mortgage loan	N/A	N/A	-	800,000	800,000
Total Long-Term Debt					<u>\$ 1,431,600</u>

Debt Service Requirements

Governmental Activities

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

<u>Year Ending December 31</u>	<u>Promissory Note</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 7,500	\$ -
2006	18,000	-
2007	18,000	-
2008	18,000	-
2009	18,000	-
2010 - 2013	<u>64,500</u>	<u>-</u>
Total	<u>\$ 144,000</u>	<u>\$ -</u>

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

6. Becker County Housing and Economic Development Authority

B. Detailed Notes on All Funds

3. Liabilities (Continued)

Changes in Long-Term Liabilities

Governmental Activities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans payable					
Midwest Bank	\$ 309,814	\$ -	\$ 309,814	\$ -	\$ -
Wild Rice Promissory Note	144,000	-	-	144,000	7,500
Governmental Activity Long-Term Liabilities	<u>\$ 453,814</u>	<u>\$ -</u>	<u>\$ 309,814</u>	<u>\$ 144,000</u>	<u>\$ 7,500</u>

Business-Type Activities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans payable	\$ -	\$ 631,600	\$ -	\$ 631,600	\$ 631,600
Mortgage loan	-	800,000	-	800,000	-
Business-Type Activity Long-Term Liabilities	<u>\$ -</u>	<u>\$ 1,431,600</u>	<u>\$ -</u>	<u>\$ 1,431,600</u>	<u>\$ 631,600</u>

C. Summary of Significant Contingencies and Other Items

1. Risk Management

The HEDA 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. The HEDA is covered under Becker County's membership in the Minnesota Counties Insurance Trust and through the purchase of 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.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

6. Becker County Housing and Economic Development Authority

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

2. 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 HEDA expects such amounts, if any, to be immaterial.

3. Liens Receivable

Community Development Block Grant programs provided funds for economic development and rehabilitation of residences of qualifying low-income individuals. Provisions of the rehabilitation contracts resulted in loans to the homeowners secured by liens against the property. Those not requiring repayment until the property is sold or the owner dies are not recorded in the financial statements.

4. Minnesota Housing Trust Fund Loans

The HEDA received loans from the Minnesota Housing Finance Agency Housing Trust Fund Program, the proceeds of which are for rental units for low-income persons. After ten years, these loans are forgiven by the state at a rate of five percent annually. The loans are for 30 years at zero percent interest. A summary of these loans, which are not shown on the balance sheet, are as follows:

Loan dated July 1, 1992, with a final maturity of July 1, 2022	\$ 12,485
Loan dated December 30, 1994, with a final maturity of July 1, 2024	51,500
Loan dated May 29, 2003, with a final maturity of May 29, 2033	<u>28,995</u>
Total	<u>\$ 92,980</u>

5. Minnesota Housing Revolving Fund Programs

The HEDA received grants from the Minnesota Housing Finance Agency to be used to construct homes for low-income residents of Becker County. When the houses are sold, the grant amounts become revolving funds to build additional housing.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

6. Becker County Housing and Economic Development Authority

C. Summary of Significant Contingencies and Other Items

5. Minnesota Housing Revolving Fund Programs (Continued)

Should the HEDA discontinue these programs, the revolving fund will be returned to the Minnesota Housing Finance Agency. The amounts received and balances on hand at June 30, 2004, are:

	<u>Original Grant</u>	<u>Revolving Fund Cash</u>	<u>Contract for Deed Receivable</u>	<u>Property Held for Resale</u>
Community Revitalization Fund	\$ 59,000	\$ 68,092	\$ -	\$ -
Minnesota Urban and Rural Homesteading Loan	1,410,100	40,120	709,791	397,789

6. Operating Leases

Lakes Homes and Program Development, Inc., entered into a five-year operating lease with the HEDA for property the HEDA owns (carrying value of \$107,609 and accumulated depreciation of \$17,456) to be used for the operation of Hidden Hills Group Home. According to the lease terms, the HEDA began receiving monthly installments of \$500 beginning in January 2005 (aggregate payments of \$30,000 during the lease term).

Lutheran Social Services of Minnesota entered into a five-year operating lease with the HEDA for the property the HEDA owns (carrying value of \$158,589 and accumulated depreciation of \$51,183) to be used for the operation of Spring Hill Group Home. According to the lease terms, the HEDA began receiving monthly installments of \$800 beginning in August 2004 (aggregate payments of \$48,000 during the lease term).

7. Housing Program

The HEDA has 74 units of Section 8 existing housing assistance payments (C-4101E). The HEDA also has a contract with the U.S. Department of Housing and Urban Development to operate 25 dwelling units for lower-income housing (C-4161).

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REQUIRED SUPPLEMENTARY INFORMATION

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**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

Schedule 1

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 2,289,629	\$ 2,289,629	\$ 2,121,414	\$ (168,215)
Licenses and permits	268,500	268,500	306,129	37,629
Intergovernmental	1,109,163	1,109,163	1,442,930	333,767
Charges for services	765,909	765,909	745,119	(20,790)
Fines and forfeits	69,000	69,000	73,403	4,403
Investment earnings	425,500	425,500	782,234	356,734
Miscellaneous	398,200	398,200	457,653	59,453
Total Revenues	\$ 5,325,901	\$ 5,325,901	\$ 5,928,882	\$ 602,981
Expenditures				
Current				
General government				
Commissioners	\$ 206,360	\$ 206,360	\$ 201,624	\$ 4,736
Courts	28,000	28,000	45,951	(17,951)
Administrator	162,284	162,284	156,419	5,865
Human resources	97,923	97,923	86,887	11,036
County auditor	328,195	328,195	340,777	(12,582)
Motor vehicle	188,516	188,516	190,433	(1,917)
County treasurer	223,415	223,415	216,299	7,116
County assessor	328,051	328,051	340,558	(12,507)
Elections	83,734	83,734	91,228	(7,494)
Central services	10,024	10,024	11,694	(1,670)
Information technology	333,461	333,461	315,756	17,705
Attorney	487,187	487,187	489,899	(2,712)
Law library	53,000	53,000	47,175	5,825
Contracted legal services	26,000	26,000	23,079	2,921
Recorder	388,913	388,913	354,081	34,832
Surveyor	9,294	9,294	9,293	1
Planning and zoning	292,400	292,400	277,833	14,567
Buildings and plant	325,428	325,428	713,750	(388,322)
Becker County annex	95,048	95,048	86,844	8,204
Veterans service officer	123,100	123,100	128,277	(5,177)
Accounting and auditing	45,000	45,000	45,016	(16)
Unallocated	169,000	169,000	156,685	12,315
Cost allocation	8,000	8,000	8,000	-
Total general government	\$ 4,012,333	\$ 4,012,333	\$ 4,337,558	\$ (325,225)
Public transportation				
Transit	\$ 296,524	\$ 296,524	\$ 293,843	\$ 2,681
Airport	70,318	70,318	70,318	-
Total public transportation	\$ 366,842	\$ 366,842	\$ 364,161	\$ 2,681
Health				
Nursing service	\$ 213,868	\$ 213,868	\$ 213,868	\$ -

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

***Schedule 1
(Continued)***

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Culture and recreation				
Historical society	\$ 70,000	\$ 70,000	\$ 70,000	\$ -
Senior citizens	3,800	3,800	3,948	(148)
Regional library	160,098	160,098	160,098	-
Total culture and recreation	\$ 233,898	\$ 233,898	\$ 234,046	\$ (148)
Conservation of natural resources				
Cooperative extension	\$ 113,545	\$ 113,545	\$ 103,604	\$ 9,941
Soil and water conservation	114,527	114,527	114,527	-
Agricultural inspections	15,429	15,429	678	14,751
Agricultural society/County fair	13,500	13,500	15,000	(1,500)
Wetland challenge	27,614	27,614	27,613	1
Water planning	25,583	25,583	25,582	1
Other	3,125	3,125	3,085	40
Total conservation of natural resources	\$ 313,323	\$ 313,323	\$ 290,089	\$ 23,234
Economic development				
Administration	\$ 156,500	\$ 156,500	\$ 148,615	\$ 7,885
Debt service				
Principal retirement	\$ -	\$ -	\$ 6,397	\$ (6,397)
Interest	\$ -	\$ -	\$ 1,558	\$ (1,558)
Total Expenditures	\$ 5,296,764	\$ 5,296,764	\$ 5,596,292	\$ (299,528)
Excess of Revenues Over (Under) Expenditures	\$ 29,137	\$ 29,137	\$ 332,590	\$ 303,453
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 264,236	\$ 264,236
Transfers out	(30,000)	(30,000)	(2,684,713)	(2,654,713)
Total Other Financing Sources (Uses)	\$ (30,000)	\$ (30,000)	\$ (2,420,477)	\$ (2,390,477)
Net Change in Fund Balance	\$ (863)	\$ (863)	\$ (2,087,887)	\$ (2,087,024)
Fund Balance - January 1	9,480,702	9,480,702	9,480,702	-
Fund Balance - December 31	\$ 9,479,839	\$ 9,479,839	\$ 7,392,815	\$ (2,087,024)

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 4,572,976	\$ 4,572,976	\$ 4,030,103	\$ (542,873)
Licenses and permits	-	-	8,052	8,052
Intergovernmental	330,997	330,997	892,316	561,319
Charges for services	109,950	109,950	169,672	59,722
Fines and forfeits	10,500	10,500	15,113	4,613
Gifts and contributions	-	-	2,267	2,267
Investment earnings	-	-	838	838
Miscellaneous	57,400	57,400	57,200	(200)
Total Revenues	\$ 5,081,823	\$ 5,081,823	\$ 5,175,561	\$ 93,738
Expenditures				
Current				
Public safety				
Sheriff	\$ 2,714,594	\$ 2,714,594	\$ 2,507,790	\$ 206,804
Boat and water safety	64,634	64,634	50,500	14,134
Emergency services	59,582	59,582	104,410	(44,828)
Coroner	27,520	27,520	28,257	(737)
County jail	1,876,663	1,876,663	2,030,528	(153,865)
Probation and parole	304,156	304,156	267,385	36,771
Sentence to serve	64,674	64,674	62,899	1,775
Total public safety	\$ 5,111,823	\$ 5,111,823	\$ 5,051,769	\$ 60,054
Debt service				
Principal retirement	-	-	4,528	(4,528)
Interest	-	-	839	(839)
Total Expenditures	\$ 5,111,823	\$ 5,111,823	\$ 5,057,136	\$ 54,687
Excess of Revenues Over (Under)				
Expenditures	\$ (30,000)	\$ (30,000)	\$ 118,425	\$ 148,425
Other Financing Sources (Uses)				
Transfers in	\$ 30,000	\$ 30,000	\$ 2,684,713	\$ 2,654,713
Transfers out	-	-	(14,236)	(14,236)
Total Other Financing Sources (Uses)	\$ 30,000	\$ 30,000	\$ 2,670,477	\$ 2,640,477
Net Change in Fund Balance	\$ -	\$ -	\$ 2,788,902	\$ 2,788,902
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	\$ -	\$ -	\$ 2,788,902	\$ 2,788,902

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 1,729,926	\$ 1,729,926	\$ 1,565,199	\$ (164,727)
Special assessments	-	-	5,065	5,065
Licenses and permits	20,000	20,000	21,390	1,390
Intergovernmental	3,997,096	3,997,096	4,863,221	866,125
Charges for services	75,000	75,000	153,077	78,077
Investment earnings	35,000	35,000	37,023	2,023
Miscellaneous	415,000	415,000	542,672	127,672
Total Revenues	\$ 6,272,022	\$ 6,272,022	\$ 7,187,647	\$ 915,625
Expenditures				
Current				
Highways and streets				
Administration	\$ 296,970	\$ 296,970	\$ 282,789	\$ 14,181
Maintenance	2,118,671	2,118,671	2,343,888	(225,217)
Construction	2,963,021	2,963,021	3,357,296	(394,275)
Equipment maintenance and shop	800,725	800,725	865,287	(64,562)
Other	92,635	92,635	93,508	(873)
Total highways and streets	\$ 6,272,022	\$ 6,272,022	\$ 6,942,768	\$ (670,746)
Intergovernmental				
Highways and streets	-	-	411,974	(411,974)
Debt service				
Principal retirement	-	-	21,098	(21,098)
Interest	-	-	3,334	(3,334)
Total Expenditures	\$ 6,272,022	\$ 6,272,022	\$ 7,379,174	\$ (1,107,152)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ (191,527)	\$ (191,527)
Fund Balance - January 1	1,959,553	1,959,553	1,959,553	-
Increase (decrease) in reserved for inventories	-	-	(38,417)	(38,417)
Fund Balance - December 31	\$ 1,959,553	\$ 1,959,553	\$ 1,729,609	\$ (229,944)

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

Schedule 4

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 4,411,964	\$ 4,411,964	\$ 3,931,832	\$ (480,132)
Intergovernmental	4,921,861	4,921,861	6,111,373	1,189,512
Miscellaneous	453,288	453,288	592,940	139,652
Total Revenues	\$ 9,787,113	\$ 9,787,113	\$ 10,636,145	\$ 849,032
Expenditures				
Current				
Human services				
Income maintenance	\$ 2,184,891	\$ 2,184,891	\$ 2,150,290	\$ 34,601
Social services	7,602,222	7,602,222	8,576,525	(974,303)
Shared care psychiatry project	-	-	138,814	(138,814)
Total human services	\$ 9,787,113	\$ 9,787,113	\$ 10,865,629	\$ (1,078,516)
Health				
Community health	-	-	47,257	(47,257)
Total Expenditures	\$ 9,787,113	\$ 9,787,113	\$ 10,912,886	\$ (1,125,773)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (276,741)	\$ (276,741)
Other Financing Sources (Uses)				
Transfers out	-	-	(250,000)	(250,000)
Net Change in Fund Balance	\$ -	\$ -	\$ (526,741)	\$ (526,741)
Fund Balance - January 1	3,871,746	3,871,746	3,871,746	-
Fund Balance - December 31	\$ 3,871,746	\$ 3,871,746	\$ 3,345,005	\$ (526,741)

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

Schedule 5

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Special assessments	\$ 600,000	\$ 600,000	\$ 580,173	\$ (19,827)
Intergovernmental	77,726	77,726	88,525	10,799
Charges for services	685,000	685,000	1,005,645	320,645
Miscellaneous	200	200	7,007	6,807
Total Revenues	\$ 1,362,926	\$ 1,362,926	\$ 1,681,350	\$ 318,424
Expenditures				
Current				
Sanitation				
Solid waste	\$ 984,011	\$ 984,011	\$ 993,613	\$ (9,602)
Recycling	302,257	302,257	239,620	62,637
Hazardous waste	83,134	83,134	32,471	50,663
Total Expenditures	\$ 1,369,402	\$ 1,369,402	\$ 1,265,704	\$ 103,698
Excess of Revenues Over (Under)				
Expenditures	\$ (6,476)	\$ (6,476)	\$ 415,646	\$ 422,122
Fund Balance - January 1	4,525,522	4,525,522	4,525,522	-
Fund Balance - December 31	\$ 4,519,046	\$ 4,519,046	\$ 4,941,168	\$ 422,122

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

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

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end.

On or before mid-August of each year, all departments and agencies submit requests for appropriations to the Becker County Administrator so that a budget can be prepared. Before September 30, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

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

Encumbrances (for example, purchase orders and 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 Budget

The following is a summary of individual funds which had expenditures in excess of budget for the year ended December 31, 2004.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 5,596,292	\$ 5,296,764	\$ 299,528
Special Revenue Funds			
Road and Bridge	7,379,174	6,272,022	1,107,152
Human Services	10,912,886	9,787,113	1,125,773

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SUPPLEMENTARY INFORMATION

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**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Parks and Recreation Fund - to provide for maintenance of County-owned parks and public accesses for the snowmobile trails program and the ski trails program. It is funded in part by a tax levy and by grants from the Department of Natural Resources (DNR).

The Resource Development Fund - to account for the receipt and expenditure of certain state grants. The DNR funds for tax-forfeited natural resources land are to be used for resource development, forest management, recreational development, and maintenance of County-administered, tax-forfeited lands. In addition, this fund receives a share of net receipts from forfeited tax sales.

The County Ditch Fund - to account for financing of the construction and repair of the ditch system.

The Forfeited Tax Fund - to account for the sale or lease of land and sales of timber and wood. The salary and expenditures of the County Land Commissioner and clerical wages are paid from this fund. The net balance in the fund is apportioned at the end of the year.

The Gravel Tax Fund - to account for revenues from a ten-cent-per-cubic-yard production tax on gravel removed from pits in Becker County under the provisions of Minn. Stat. § 298.75.

DEBT SERVICE FUND

The Debt Service Fund - to account for the accumulation of resources for, and payment of, principal and interest on long-term debt.

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

Statement A-1

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

	Special Revenue (Statement B-1)	Debt Service	Total Nonmajor Governmental Funds (Exhibit 3)
<u>Assets</u>			
Cash and pooled investments	\$ 1,024,073	\$ 645,872	\$ 1,669,945
Taxes receivable			
Current	1,960	11,600	13,560
Prior	1,666	6,251	7,917
Special assessments receivable			
Prior	34	-	34
Accounts receivable	318,225	-	318,225
Due from other funds	52,851	-	52,851
Total Assets	<u>\$ 1,398,809</u>	<u>\$ 663,723</u>	<u>\$ 2,062,532</u>
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 14,154	\$ -	\$ 14,154
Salaries payable	2,198	-	2,198
Due to other funds	228,104	-	228,104
Due to other governments	97,822	-	97,822
Deferred revenue - unavailable	235,364	11,675	247,039
Total Liabilities	<u>\$ 577,642</u>	<u>\$ 11,675</u>	<u>\$ 589,317</u>
Fund Balances			
Reserved for debt service	\$ -	\$ 652,048	\$ 652,048
Reserved for conservation of natural resources	5,781	-	5,781
Reserved for gravel pit closure	157,028	-	157,028
Unreserved			
Designated for future expenditures	40,269	-	40,269
Undesignated	618,089	-	618,089
Total Fund Balances	<u>\$ 821,167</u>	<u>\$ 652,048</u>	<u>\$ 1,473,215</u>
Total Liabilities and Fund Balances	<u>\$ 1,398,809</u>	<u>\$ 663,723</u>	<u>\$ 2,062,532</u>

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

Statement A-2

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

	Special Revenue (Statement B-1)	Debt Service	Total Nonmajor Governmental Funds (Exhibit 3)
Revenues			
Taxes	\$ 147,124	\$ 444,079	\$ 591,203
Intergovernmental	126,881	57,589	184,470
Charges for services	1,675	-	1,675
Gifts and contributions	10,456	-	10,456
Miscellaneous	312,085	309	312,394
Total Revenues	\$ 598,221	\$ 501,977	\$ 1,100,198
Expenditures			
Current			
Culture and recreation	\$ 280,445	\$ -	\$ 280,445
Conservation of natural resources	346,899	-	346,899
Debt service			
Principal retirement	-	425,000	425,000
Interest	-	41,375	41,375
Administrative and fiscal services	-	403	403
Total Expenditures	\$ 627,344	\$ 466,778	\$ 1,094,122
Excess of Revenues Over (Under) Expenditures	\$ (29,123)	\$ 35,199	\$ 6,076
Fund Balance - January 1	850,290	616,849	1,467,139
Fund Balance - December 31	\$ 821,167	\$ 652,048	\$ 1,473,215

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

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

	Parks and Recreation	Resource Development
<u>Assets</u>		
Cash and pooled investments	\$ 333,132	\$ 256,997
Taxes receivable		
Current	1,960	-
Prior	1,666	-
Special assessments receivable		
Prior	-	-
Accounts receivable	-	-
Due from other funds	21,140	31,711
Total Assets	\$ 357,898	\$ 288,708
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 13,544	\$ 600
Salaries payable	2,198	-
Due to other funds	2,917	16,547
Due to other governments	-	-
Deferred revenue - unavailable	2,538	-
Total Liabilities	\$ 21,197	\$ 17,147
Fund Balances		
Reserved for gravel pit closure	\$ -	\$ -
Reserved for conservation of natural resources	-	-
Unreserved		
Designated for future expenditures	-	-
Undesignated	336,701	271,561
Total Fund Balances	\$ 336,701	\$ 271,561
Total Liabilities and Fund Balances	\$ 357,898	\$ 288,708

Statement B-1

County Ditch	Forfeited Tax	Gravel Tax	Total (Statement A-1)
\$ 9,827	\$ 111,483	\$ 312,634	\$ 1,024,073
-	-	-	1,960
-	-	-	1,666
34	-	-	34
-	275,961	42,264	318,225
-	-	-	52,851
\$ 9,861	\$ 387,444	\$ 354,898	\$ 1,398,809
\$ -	\$ 10	\$ -	\$ 14,154
-	-	-	2,198
-	76,727	131,913	228,104
-	31,865	65,957	97,822
34	232,792	-	235,364
\$ 34	\$ 341,394	\$ 197,870	\$ 577,642
\$ -	\$ -	\$ 157,028	\$ 157,028
-	5,781	-	5,781
-	40,269	-	40,269
9,827	-	-	618,089
\$ 9,827	\$ 46,050	\$ 157,028	\$ 821,167
\$ 9,861	\$ 387,444	\$ 354,898	\$ 1,398,809

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

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

	<u>Parks and Recreation</u>	<u>Resource Development</u>
Revenues		
Taxes	\$ 96,470	\$ 31,711
Intergovernmental	80,771	46,110
Charges for services	1,675	-
Gifts and contributions	10,456	-
Miscellaneous	-	380
	<hr/>	<hr/>
Total Revenues	\$ 189,372	\$ 78,201
	<hr/>	<hr/>
Expenditures		
Current		
Culture and recreation	\$ 280,445	\$ -
Conservation of natural resources	-	67,578
	<hr/>	<hr/>
Total Expenditures	\$ 280,445	\$ 67,578
	<hr/>	<hr/>
Excess of Revenues Over (Under) Expenditures	\$ (91,073)	\$ 10,623
	<hr/>	<hr/>
Fund Balance - January 1	427,774	260,938
	<hr/>	<hr/>
Fund Balance - December 31	\$ 336,701	\$ 271,561
	<hr/> <hr/>	<hr/> <hr/>

Statement B-2

County Ditch	Forfeited Tax	Gravel Tax	Total (Statement A-1)
\$ -	\$ -	\$ 18,943	\$ 147,124
-	-	-	126,881
-	-	-	1,675
-	-	-	10,456
-	311,705	-	312,085
\$ -	\$ 311,705	\$ 18,943	\$ 598,221
\$ -	\$ -	\$ -	\$ 280,445
-	279,321	-	346,899
\$ -	\$ 279,321	\$ -	\$ 627,344
\$ -	\$ 32,384	\$ 18,943	\$ (29,123)
9,827	13,666	138,085	850,290
\$ 9,827	\$ 46,050	\$ 157,028	\$ 821,167

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

Schedule 8

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Special assessments	\$ -	\$ -	\$ -	\$ -
Expenditures				
Current				
Conservation of natural resources	150	150	-	150
Excess of Revenues Over (Under)				
Expenditures	\$ (150)	\$ (150)	\$ -	\$ 150
Fund Balance - January 1	9,827	9,827	9,827	-
Fund Balance - December 31	\$ 9,677	\$ 9,677	\$ 9,827	\$ 150

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

Schedule 7

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 20,500	\$ 20,500	\$ 31,711	\$ 11,211
Intergovernmental	47,000	47,000	46,110	(890)
Miscellaneous	500	500	380	(120)
Total Revenues	\$ 68,000	\$ 68,000	\$ 78,201	\$ 10,201
Expenditures				
Current				
Resource development	106,500	106,500	67,578	38,922
Excess of Revenues Over (Under)				
Expenditures	\$ (38,500)	\$ (38,500)	\$ 10,623	\$ 49,123
Fund Balance - January 1	260,938	260,938	260,938	-
Fund Balance - December 31	\$ 222,438	\$ 222,438	\$ 271,561	\$ 49,123

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

Schedule 8

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Special assessments	\$ -	\$ -	\$ -	\$ -
Expenditures				
Current				
Conservation of natural resources	150	150	-	150
Excess of Revenues Over (Under)				
Expenditures	\$ (150)	\$ (150)	\$ -	\$ 150
Fund Balance - January 1	9,827	9,827	9,827	-
Fund Balance - December 31	\$ 9,677	\$ 9,677	\$ 9,827	\$ 150

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

Schedule 9

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Miscellaneous	\$ 431,800	\$ 431,800	\$ 311,705	\$ (120,095)
Expenditures				
Current				
Conservation of natural resources	243,250	243,250	279,321	(36,071)
Excess of Revenues Over (Under)				
Expenditures	\$ 188,550	\$ 188,550	\$ 32,384	\$ (156,166)
Fund Balance - January 1	13,666	13,666	13,666	-
Fund Balance - December 31	<u>\$ 202,216</u>	<u>\$ 202,216</u>	<u>\$ 46,050</u>	<u>\$ (156,166)</u>

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

Schedule 10

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 175,000	\$ 175,000	\$ 18,943	\$ (156,057)
Expenditures				
Current				
Conservation of natural resources	175,000	175,000	-	175,000
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ 18,943	\$ 18,943
Fund Balance - January 1	138,085	138,085	138,085	-
Fund Balance - December 31	\$ 138,085	\$ 138,085	\$ 157,028	\$ 18,943

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

The Section 125 Fund - to account for the payroll deductions and disbursements of a County-administered cafeteria plan.

The Clearing Fund - to account for money collected and paid to other governments and funds.

The Taxes and Penalties Fund - to account for taxes collected and disbursements by apportionment or transfer to the various funds and taxing districts.

The Children's Initiative Fund - to account for the cash transactions of the Becker County Children's Initiative.

The Multi-County Nursing Service Fund - to account for the cash transactions of a health service operated by Becker, Mahnomen, and Norman Counties. This fund was closed in 2005.

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**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

Statement C-1

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>SECTION 125 FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 19,192	\$ -	\$ 19,192	\$ -
<u>Liabilities</u>				
Deferred credits	\$ 19,192	\$ -	\$ 19,192	\$ -
<u>CLEARING FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 294,303	\$ 3,210,928	\$ 3,354,076	\$ 151,155
<u>Liabilities</u>				
Accounts payable	\$ 113,696	\$ 3,105	\$ 113,696	\$ 3,105
Due to other governments	180,607	3,207,823	3,240,380	148,050
Total Liabilities	\$ 294,303	\$ 3,210,928	\$ 3,354,076	\$ 151,155
<u>TAXES AND PENALTIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 590,734	\$ 27,175,579	\$ 27,248,609	\$ 517,704
<u>Liabilities</u>				
Due to other governments	\$ 463,166	\$ 27,079,828	\$ 27,121,041	\$ 421,953
Deferred credits	127,568	95,751	127,568	95,751
Total Liabilities	\$ 590,734	\$ 27,175,579	\$ 27,248,609	\$ 517,704

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

***Statement C-1
(Continued)***

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>CHILDREN'S INITIATIVE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 5,270	\$ 603,595	\$ 393,363	\$ 215,502
<u>Liabilities</u>				
Due to other governments	\$ 5,270	\$ 603,595	\$ 393,363	\$ 215,502
<u>MULTI-COUNTY NURSING SERVICE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 368,317	\$ 1,596,305	\$ 1,964,622	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 368,317	\$ 1,596,305	\$ 1,964,622	\$ -
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,277,816	\$ 32,586,407	\$ 32,979,862	\$ 884,361
<u>Liabilities</u>				
Accounts payable	\$ 113,696	\$ 3,105	\$ 113,696	\$ 3,105
Due to other governments	1,017,360	32,487,551	32,719,406	785,505
Deferred credits	146,760	95,751	146,760	95,751
Total Liabilities	\$ 1,277,816	\$ 32,586,407	\$ 32,979,862	\$ 884,361

OTHER SCHEDULES

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**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

Schedule 11

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

	<u>Number</u>	<u>Rate (%)</u>	<u>Maturity Dates</u>	<u>Fair Value</u>
Cash and Pooled Investments				
Cash on hand and departmental checking	N/A	N/A	N/A	\$ 16,287
Checking accounts - interest-bearing	One	2.47	N/A	1,523,084
Money market savings	One	1.74	N/A	3,088,891
Money market savings held by brokers	Four	Variable	Continuous	910,814
Certificates of deposit	Four	1.40 to 4.09	May 10, 2005 to September 30, 2005	245,579
Portion of jumbo certificates of deposit	Four	1.90 to 3.35	February 3, 2005 to December 26, 2006	264,230
Commercial Paper	One	1.86	February 28, 2005	115,425
FHLB	Thirteen	2.25 to 5.25	August 15, 2006 May 25, 2018	7,827,291
FHLMC	Four	2.75 to 8.24	December 15, 2006 to November 1, 2030	1,150,931
FNMA	Six	1.30 to 7.13	February 15, 2005 to March 1, 2021	5,028,875
GNMA	One	6.00	December 15, 2008	6,920
U.S. Treasury Note	Five	-	February 15, 2027 to May 15, 2027	2,871,690
Mutual fund	One	Variable	Continuous	1,362,622
Total				\$ 24,412,639
Change in Nursing Home cash from September 30 to December 31, 2004				(34,506)
Total Cash and Pooled Investments				<u>\$ 24,378,133</u>

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

Schedule 12

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

	County Ditch No. 16	County Ditch No. 17	County Ditch No. 20	Total
<u>Assets</u>				
Cash and pooled investments	\$ 4,941	\$ 2,597	\$ 2,289	\$ 9,827
Special assessments receivable				
Delinquent	-	-	34	34
Total Assets	<u>\$ 4,941</u>	<u>\$ 2,597</u>	<u>\$ 2,323</u>	<u>\$ 9,861</u>
<u>Liabilities and Fund Balance</u>				
Liabilities				
Deferred revenue	\$ -	\$ -	\$ 34	\$ 34
Fund Balance				
Unreserved				
Undesignated	4,941	2,597	2,289	9,827
Total Liabilities and Fund Balance	<u>\$ 4,941</u>	<u>\$ 2,597</u>	<u>\$ 2,323</u>	<u>\$ 9,861</u>

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

Schedule 13

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

	Governmental Funds	Enterprise Funds	Total Primary Government	Component Unit
Shared Revenue				
State				
Highway users tax	\$ 4,395,415	\$ -	\$ 4,395,415	\$ -
County program aid	581,742	-	581,742	-
PERA rate reimbursement	38,181	-	38,181	-
Disparity reduction aid	4,150	-	4,150	-
Police aid	93,354	-	93,354	-
Market value credit	1,461,322	-	1,461,322	-
Mobile home MVC	13,391	-	13,391	-
Total Shared Revenue	\$ 6,587,555	\$ -	\$ 6,587,555	\$ -
Reimbursement for Services				
State				
Minnesota Department of Human Services	\$ 2,178,226	\$ -	\$ 2,178,226	\$ -
Payments				
Local				
Local contributions	\$ 13,230	\$ -	\$ 13,230	\$ -
Payments in lieu of taxes	197,561	-	197,561	-
Total Payments	\$ 210,791	\$ -	\$ 210,791	\$ -
Grants				
State				
Minnesota Department/Board of				
Corrections	\$ 115,953	\$ -	\$ 115,953	\$ -
Public Safety	76,199	-	76,199	-
Transportation	412,568	-	412,568	-
Natural Resources	165,551	-	165,551	-
Human Services	2,136,221	-	2,136,221	-
Veterans Services	4,200	-	4,200	-
Housing Finance Agency	-	-	-	365,079
Office of Environmental Assistance	70,598	-	70,598	-
Pollution Control Agency	17,927	-	17,927	-
Total State	\$ 2,999,217	\$ -	\$ 2,999,217	\$ 365,079

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

Schedule 13
(Continued)

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

	Governmental Funds	Enterprise Funds	Total Primary Government	Component Unit
Grants (Continued)				
Federal				
Department of Commerce	\$ -	\$ -	\$ -	\$ 9,741
Housing and Urban Development	-	-	-	377,919
Transportation	102,520	-	102,520	-
Health and Human Services	1,444,932	-	1,444,932	-
Homeland Security	59,594	-	59,594	40,659
Environmental Protection Agency	-	57,600	57,600	-
Total Federal	\$ 1,607,046	\$ 57,600	\$ 1,664,646	\$ 428,319
Total State and Federal Grants	\$ 4,606,263	\$ 57,600	\$ 4,663,863	\$ 793,398
Total Intergovernmental Revenue	\$ 13,582,835	\$ 57,600	\$ 13,640,435	\$ 793,398

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**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

Schedule 14

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

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Becker County.
- B. A reportable condition in internal control was disclosed by the audit of financial statements of Becker County and is reported in the "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*." It was not a material weakness.
- C. No instances of noncompliance material to the financial statements of Becker County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Becker County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Foster Care - Title IV-E	CFDA #93.658
Social Services Block Grant - Title XX	CFDA #93.667
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Becker County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-7 Departmental Segregation of Duties

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

We recommend that the County Board continue to be aware of the lack of segregation of the accounting functions and, where possible, develop oversight procedures to ensure that the internal control policies and procedures are being implemented by staff.

Client's Response:

The County is aware of the segregation of duty issue. It has implemented comprehensive internal controls.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

OTHER REQUIRED REPORTS

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Becker County

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Becker County as of and for the year ended December 31, 2004, and have issued our report thereon dated October 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the Sunnyside Care Center Enterprise Fund. A separate report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards* issued by other auditors for the Sunnyside Care Center is available.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Becker County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 96-7.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Becker 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, Becker County complied with the material terms and conditions of applicable legal provisions.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 25, 2005



STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Becker County

Compliance

We have audited the compliance of Becker County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. Becker County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

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

Internal Control Over Compliance

The management of Becker County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Becker County as of and for the year ended December 31, 2004, and have issued our report thereon dated October 25, 2005. We did not audit the Sunnyside Care Center Enterprise Fund. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Becker County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 25, 2005

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

Schedule 15

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Commerce		
Direct		
Public Works and Economic Development Grants	11.300	\$ <u>3,720</u>
U.S. Department of Housing and Urban Development		
Direct		
Public and Indian Housing	14.850	\$ 50,283
Section 8 Housing Choice Vouchers	14.871	277,716
Public Housing - Capital Fund Program	14.872	<u>49,920</u>
Total U.S. Department of Housing and Urban Development		\$ <u>377,919</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	\$ 13,624
Public Transportation for Non-Urbanized Areas	20.509	75,526
Passed Through Minnesota Department of Public Safety		
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	7,681
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	<u>5,689</u>
Total U.S. Department of Transportation		\$ <u>102,520</u>
U.S. Environmental Protection Agency		
Passed Through Minnesota Department of Employment and Economic Development		
Capitalization Grants for Drinking Water State Revolving Fund	66.468	\$ <u>57,600</u>

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

**Schedule 15
(Continued)**

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families - Title IV-B-2	93.556	\$ 184,144
Temporary Assistance for Needy Families	93.558	221,139
Child Care Mandatory and Matching Funds	93.596	332,699
Children's Justice Grant	93.643	7,150
Foster Care Title IV-E	93.658	280,596
Social Services Block Grant Title XX	93.667	402,489
Chafee Foster Care Independent Living	93.674	15,675
Community Mental Health Block Grant	93.958	11,220
Total U.S. Department of Health and Human Services		<u>\$ 1,455,112</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Grants	97.004	\$ 30,824
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	7,207
Passed Through Minnesota Department of Public Safety Public Assistance Grant	97.036	40,659
Hazard Mitigation Grant	97.039	8,310
Emergency Management Performance Grants	97.042	9,903
State and Local All Hazards Emergency Operations Planning	97.051	3,350
Total U.S. Department of Homeland Security		<u>\$ 100,253</u>
Total		<u>\$ 2,097,124</u>

**BECKER COUNTY
DETROIT LAKES, MINNESOTA**

**Schedule 15
(Continued)**

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
Non-Cash Awards		
U.S. Environmental Protection Agency		
Passed Through Minnesota Department of Employment and Economic Development		
Capitalization Grants for Drinking Water State Revolving Fund	66.468	135,430
Total Federal Awards		\$ 2,232,554

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Becker County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Due to revenue recognition principles of modified accrual, expenditures on this schedule do not equal federal revenues reported in the funds. The basis used for CFDA No. 66.468 is the value of new loans made during the year.
3. Pass-through grant numbers were not assigned by the pass-through agencies.