

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

YEAR ENDED DECEMBER 31, 2005

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

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THIEF RIVER FALLS, MINNESOTA**

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INTRODUCTORY SECTION

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2005**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1 st District	Donald Jensen	January 2009
2 nd District	Robert Carlson*	January 2007
3 rd District	Charles Naplin	January 2007
4 th District	Arden "Bud" Comstock	January 2007
5 th District	Oliver "Skip" Swanson	January 2009
Officers		
Elected:		
Attorney	David Olin	January 2007
Auditor	Kenneth Olson	January 2007
Coroner	R. Heinrichs, M.D.	January 2007
Recorder	Kenneth Schmalz	January 2007
Sheriff	Michael Hruby	January 2007
Treasurer	Vickie Bjorgaard	January 2007
Appointed:		
Assessor	Adeline Olson	January 2009
Highway Engineer	Michael Flaagan	May 2007
Nursing Home Administrator	Angela Malone	Indefinite
Human Services Director	Kenneth Yutzenka	Indefinite
Solid Waste Officer	Howard Person	Indefinite
Veterans Service Officer	Steve Stone	Indefinite

* Chair

FINANCIAL SECTION



GOVERNMENTAL AUDIT SERVICES

Colleen Hoffman, Manager
Gordon Dale, CPA
Audrey Swenson, CPA

502 Davis Avenue North
Thief River Falls, MN 56701
Phone: 218-681-4078
Fax: 218-681-4079
choffman@mncable.net

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Pennington County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pennington County, Minnesota, as of and for the year ended December 31, 2005, including the Oakland Park Nursing Home Enterprise Fund as of and for the year ended September 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pennington County as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

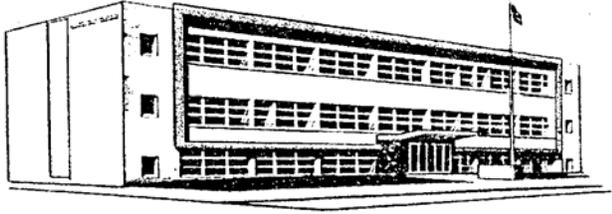
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pennington County's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2006, on our consideration of Pennington County's internal control over financial reporting and tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Hoffman, Dale, & Swenson, PLLC

July 25, 2006



PENNINGTON COUNTY

101 Main Ave. No.; P.O. Box 616
Thief River Falls, MN 56701

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The management of Pennington County offers readers of the County's Financial Statements this narrative overview and analysis of the financial activities of Pennington County for the fiscal year ended December 31, 2005. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The total net assets of governmental activities are \$54,692,220, of which \$48,444,249 is invested in capital assets net of related debt and \$585,590 is restricted for specific purposes. The total net assets of governmental activities increased by \$2,990,730 for the year ended December 31, 2005. This is attributed primarily to state funding of highway construction projects and a Department of Homeland Security grant for sheriff's communication equipment.

The total net assets of business-type activities are \$601,871 of which \$526,605 is invested in capital assets net of related debt and \$11,449 is restricted for specific purposes. The total net assets of business-type activities increased by \$50,482 for the year ended September 30, 2005, primarily as a result of operating transfers from the General Fund.

At the close of 2005, the County's governmental funds reported combined ending fund balances of \$5,966,138, an increase of \$17,631, from the prior year. Of the total fund balance amount, \$1,167,226 is legally or contractually reserved, and \$4,288,331 is designated for specific purposes, and an additional \$510,581 is available for spending at the County's discretion and is noted as unreserved, undesignated fund balance. Maintaining an adequate fund balance is necessary to provide County services throughout the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Pennington County's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector businesses. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The *Statement of Net Assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

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

- **Governmental activities**—Most of the County's basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state grants finance most of these activities.
- **Business-type activities**—The County charges fees to cover the costs of certain services it provides. Included here are the operations of the Oakland Park Nursing Home.

The government-wide financial statements can be found as Exhibits 1 and 2 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Pennington County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, fund-level financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the Balance Sheet – Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The County reports three governmental fund types: General, Special Revenue, and Debt Service. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, and the Ditch Special Revenue Fund, all of which are considered to be major funds. Data from the other two Special Revenue Funds and the five Debt Service Funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor funds is provided in the form of combining statements after the notes to the financial statements.

Pennington County adopts annual budgets for its governmental funds. Budgetary comparisons have been provided for these funds to demonstrate compliance with their budgets.

Proprietary Funds Pennington County maintains one proprietary fund. The Oakland Park Nursing Home Enterprise Fund is used to account for the operations of the Oakland Park Nursing Home. Financing is provided by charges to residents for services. Proprietary funds provide the same type of information as the government-wide financial statements, and are included in the Statement of Net Assets and the Statement of Activities as business-type activities.

Fiduciary Funds Fiduciary funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, or other funds. Pennington County's fiduciary funds consist of ten agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In addition, the Agency Funds are not reflected in the government-wide financial statements because those resources are not available to support the County's programs. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All fiduciary activities are reported in Statement 7, Combining Statement of Changes in Assets and Liabilities.

Notes to the Financial Statements

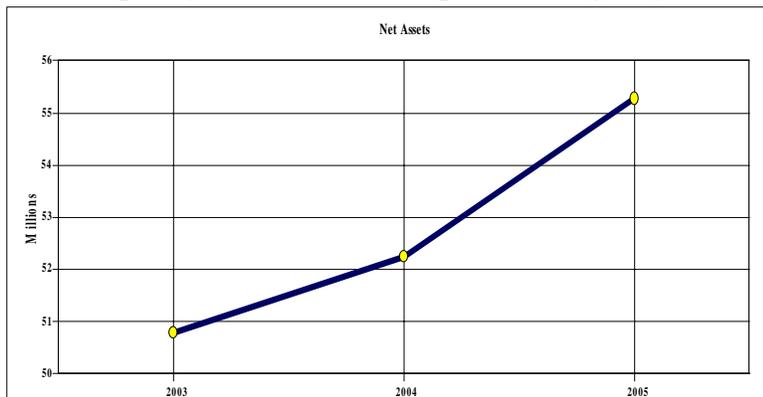
The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 27 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. The County also provides supplementary information including a ditch balance sheet and a schedule of intergovernmental revenues.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$55,294,091 at the close of 2005. The largest portion of the County's net assets (approximately 89 percent) reflects its investment in capital assets (i.e., land, construction in progress, infrastructure, buildings and improvements, land improvements, and machinery and equipment), net of related debt used to acquire those assets. It should be noted that this amount is not available for future spending. Approximately one percent of the County's net assets are restricted and ten percent of the County's net assets are unrestricted. The unrestricted net asset amount of \$5,726,198, as of December 31, 2005, may be used to meet the County's ongoing obligations to citizens.

The County's overall financial position increased from last year. Total assets increased by \$2,352,833, from the prior year, due to the completion of highway construction projects and the acquisition of the



sheriff's communication equipment. Total liabilities decreased by \$688,379, from the prior year, due to scheduled maturities of long-term debt. This resulted in increased net assets of \$3,041,212 from the prior year.

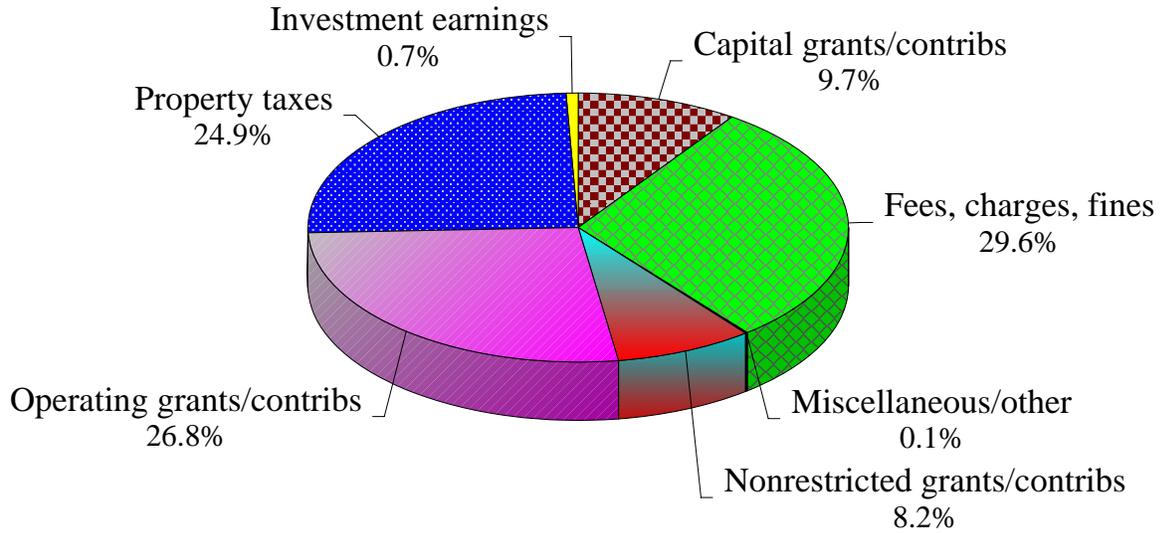
NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 7,747,336	\$ 6,983,691	\$ 319,163	\$ 254,437	\$ 8,066,499	\$ 7,238,128
Capital assets	<u>52,021,789</u>	<u>50,444,764</u>	<u>595,980</u>	<u>648,543</u>	<u>52,617,769</u>	<u>51,093,307</u>
Total assets	<u>\$ 59,769,125</u>	<u>\$ 57,428,455</u>	<u>\$ 915,143</u>	<u>\$ 902,980</u>	<u>\$ 60,684,268</u>	<u>\$ 58,331,435</u>
Other liabilities	\$ 727,468	\$ 873,267	\$ 92,237	\$ 142,212	\$ 819,705	\$ 1,015,479
Long-term liabilities outstanding	<u>4,349,437</u>	<u>4,853,698</u>	<u>221,035</u>	<u>209,379</u>	<u>4,570,472</u>	<u>5,063,077</u>
Total liabilities	<u>\$ 5,076,905</u>	<u>\$ 5,726,965</u>	<u>\$ 313,272</u>	<u>\$ 351,591</u>	<u>\$ 5,390,177</u>	<u>\$ 6,078,556</u>
Net assets						
Invested in capital assets, net of related debt	\$ 48,444,249	\$ 45,879,345	\$ 526,605	\$ 449,479	\$ 48,970,854	\$ 46,328,824
Restricted	585,590	1,774,803	11,449	101,910	597,039	1,876,713
Unrestricted	<u>5,662,381</u>	<u>4,047,342</u>	<u>63,817</u>	<u>-</u>	<u>5,726,198</u>	<u>4,047,342</u>
Total net assets	<u>\$ 54,692,220</u>	<u>\$ 51,701,490</u>	<u>\$ 601,871</u>	<u>\$ 551,389</u>	<u>\$ 55,294,091</u>	<u>\$ 52,252,879</u>

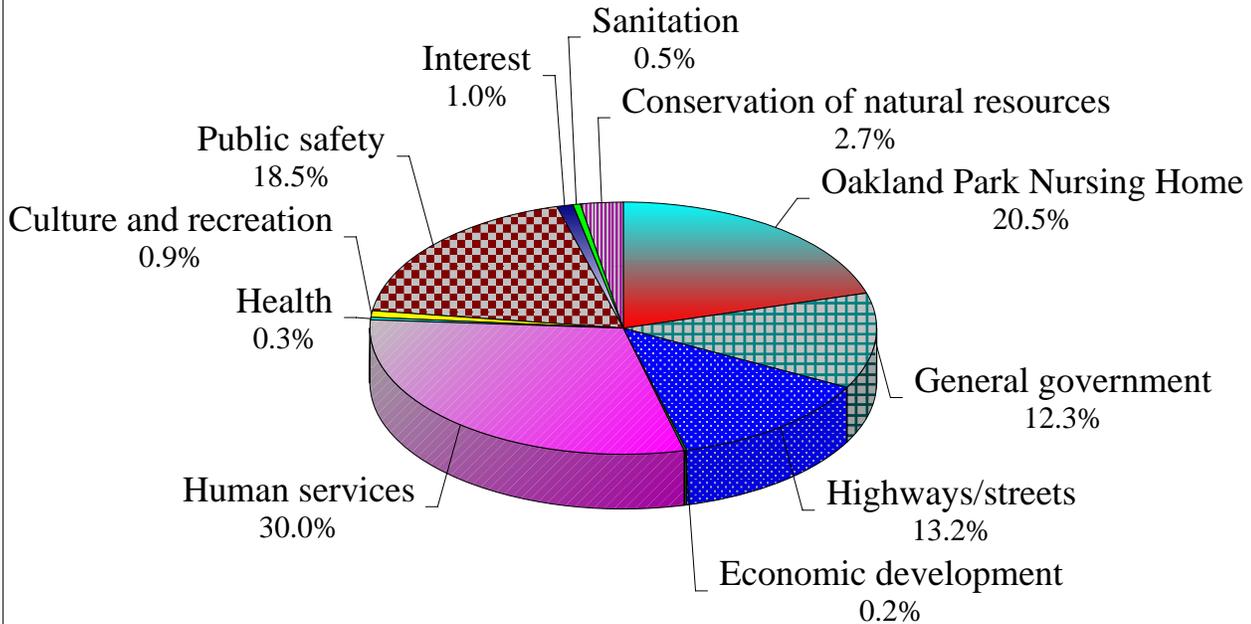
CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues						
Charges for services	\$ 2,434,465	\$ 2,711,613	\$ 2,841,703	\$ 2,721,106	\$ 5,276,168	\$ 5,432,719
Operating grants and contributions	4,758,614	3,656,203	8,893	8,893	4,767,507	3,665,096
Capital grants and contributions	1,718,908	2,315,003	3,433	85,208	1,722,341	2,400,211
General revenues						
Property taxes	4,443,193	4,226,941	-	-	4,443,193	4,226,941
Grants and contributions not restricted to specific programs	1,460,905	1,078,922	-	-	1,460,905	1,078,922
Gifts and contributions	-	31,477	-	-	-	31,477
Payments in lieu of tax	23,097	-	-	-	23,097	-
Investment earnings	124,923	56,088	-	-	124,923	56,088
Miscellaneous	-	125,019	1,983	-	1,983	125,019
Transfers	<u>(226,000)</u>	<u>-</u>	<u>226,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>\$14,738,105</u>	<u>\$ 14,201,266</u>	<u>\$ 3,082,012</u>	<u>\$ 2,815,207</u>	<u>\$ 17,820,117</u>	<u>\$ 17,016,473</u>
Expenses						
General government	\$ 1,812,728	\$ 1,784,862	\$ -	\$ -	\$ 1,812,728	\$ 1,784,862
Public safety	2,739,901	2,595,164	-	-	2,739,901	2,595,164
Highways and streets	1,953,049	3,078,983	-	-	1,953,049	3,078,983
Sanitation	69,213	151,344	-	-	69,213	151,344
Human services	4,428,001	4,387,484	-	-	4,428,001	4,387,484
Health	41,615	113,801	-	-	41,615	113,801
Culture and recreation	126,514	105,302	-	-	126,514	105,302
Conservation of natural resources	400,127	448,636	-	-	400,127	448,636
Economic development	22,759	21,732	-	-	22,759	21,732
Interest	153,468	-	-	-	153,468	-
Nursing home	<u>-</u>	<u>-</u>	<u>3,031,530</u>	<u>2,872,280</u>	<u>3,031,530</u>	<u>2,872,280</u>
Total expenses	<u>\$11,747,375</u>	<u>\$ 12,687,308</u>	<u>\$ 3,031,530</u>	<u>\$ 2,872,280</u>	<u>\$ 14,778,905</u>	<u>\$ 15,559,588</u>
Increase (decrease) in net assets	\$ 2,990,730	\$ 1,513,958	\$ 50,482	\$ (57,073)	\$ 3,041,212	\$ 1,456,885
Net assets, January 1, as previously reported	51,701,490	46,414,394	551,389	608,462	52,252,879	47,022,856
Restatement – Note I.E.	<u>-</u>	<u>3,773,138</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,773,138</u>
Net assets, December 31	<u>\$54,692,220</u>	<u>\$ 51,701,490</u>	<u>\$ 601,871</u>	<u>\$ 551,389</u>	<u>\$ 55,294,091</u>	<u>\$ 52,252,879</u>

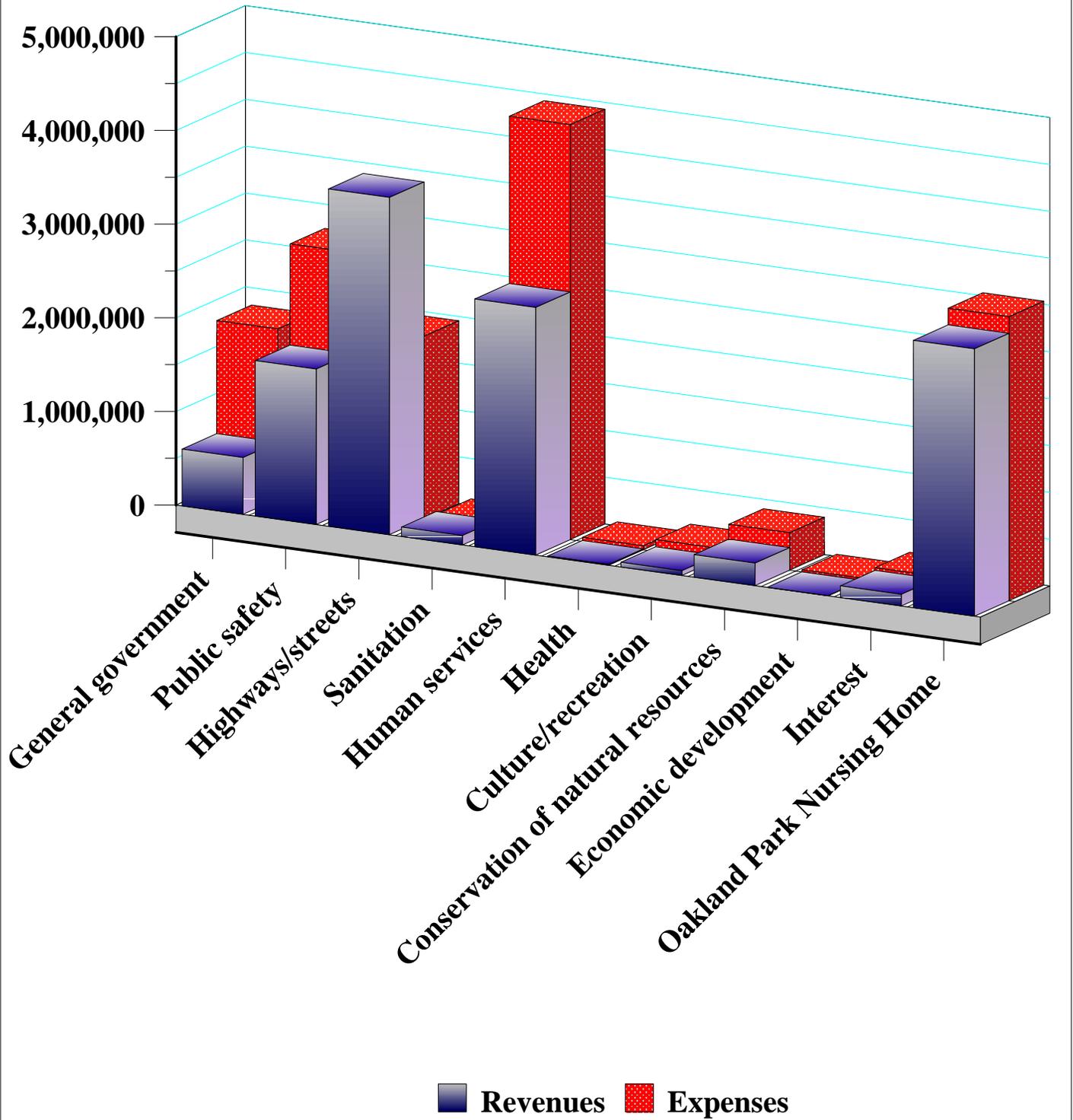
Revenues by Source



Expenses by Function



Program Revenues & Expenses



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, with a focus on short-term inflows, outflows, and balances of spendable resources. In particular, unreserved fund balance may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year.

Governmental Funds

At the end of 2005, the County's governmental funds reported combined ending fund balances of \$5,996,138. Of this amount, approximately 20 percent constitutes legally or contractually reserved fund balance, 72 percent constitutes specifically designated fund balance, and eight percent constitutes available unreserved, undesignated fund balance.

The General Fund is the operating fund of the County. At the end of the current fiscal year, the General Fund's total fund balance was \$3,131,034. The General Fund's reserved fund balance was \$333,183, unreserved, designated fund balance was \$2,558,732, and the unreserved, undesignated fund balance was \$239,119. As a measure of the General Fund's liquidity, it is useful to compare both unreserved fund balance and total fund balance to total fund expenditures for 2005. Unreserved fund balance represents 51 percent of total General Fund expenditures, while total fund balance represents 57 percent of that same amount.

In 2005, the fund balance amount in the General Fund decreased by \$313,015. The primary reason for this decrease was the use of Enhanced 911 reserves to purchase budgeted computer software for the Law Enforcement Center and the use of bond proceeds budgeted for radio equipment purchases.

The fund balance of the Road and Bridge Special Revenue Fund increased \$568,821 in 2005. The main reason for this increase was the reimbursement for engineering costs on previously completed state aid highway construction projects and the postponement in the purchase of budgeted equipment.

The fund balance of the Human Services Special Revenue Fund decreased \$34,141 from the prior year. This decrease was due to the planned reduction of reserves.

The fund balance of the Ditch Special Revenue Fund increased \$76,393 from the prior year. This increase was due to an attempt to increase fund balance to the legal limit for future maintenance projects.

Proprietary Fund

The Oakland Park Nursing Home Enterprise Fund's total operating revenues increased by 4.43 percent (\$120,597). The total cost of all operating expenses increased by 5.56 percent (\$159,550). This combination of an increase in operating revenues and an increase in operating expenses yielded a net reduction in net assets (from operations) of \$188,744. However, when the nonoperating revenues and expenses are added to our analysis, the total change in net assets increased \$107,555 [\$50,482 as compared to \$(57,073) in the prior year]. This increase was due to a transfer from Pennington County of \$226,000.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the original budgets as approved for 2005.

Actual revenues were more than overall final budgeted revenues by \$265,876. The largest variances were in intergovernmental revenues and taxes due to state shared credits being misclassified when the budget was reported. Actual expenditures were less than overall final budgeted expenditures by \$45,356. The

largest positive variances were in public safety due to less than anticipated expenditures for jail operations.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2005 and business-type activities as of September 30, 2005, amounted to \$52,617,769 (net of accumulated depreciation). The total increase in the County's investment in capital assets for the current fiscal year was approximately three percent. This increase was due to highway construction and the purchase of sheriff's communication equipment.

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 509,019	\$ 486,519	\$ 11,800	\$ 11,800	\$ 520,819	\$ 498,319
Construction in progress	4,010,137	3,043,939	-	-	4,010,137	3,043,939
Infrastructure	43,157,026	42,638,604	-	-	43,157,026	42,638,604
Buildings and improvements	2,991,819	3,151,413	483,899	522,666	3,475,718	3,674,079
Land improvements	-	-	9,351	10,732	9,351	10,732
Machinery and equipment	<u>1,353,788</u>	<u>1,124,289</u>	<u>90,930</u>	<u>103,345</u>	<u>1,444,718</u>	<u>1,227,634</u>
Total capital assets	<u>\$ 52,021,789</u>	<u>\$ 50,444,764</u>	<u>\$ 595,980</u>	<u>\$ 648,543</u>	<u>\$ 52,617,769</u>	<u>\$ 51,093,307</u>

Additional information on the County's capital assets can be found in the notes to the financial statements.

Long-term debt

At the end of the current fiscal year, the County had total debt outstanding of \$3,992,504 which is backed by the full faith and credit of the government.

	Governmental Activities	
	2005	2004
General Obligation Bonds (net of discount)	\$ 2,546,504	\$ 3,006,256
Transportation Revolving Loan	1,446,000	1,515,000
Installment Purchase Contracts	<u>-</u>	<u>15,419</u>
Total Outstanding Debt	<u>\$ 3,992,504</u>	<u>\$ 4,536,675</u>

The County's net decrease in debt of \$544,171 (12 percent) during the fiscal year was attributable to principal payments for the current year.

Minnesota Statutes limit the amount of debt that a County may have to two percent of its total market value, excluding revenue bonds. At the end of 2005, overall debt of the County is well below the two percent debt limit.

Pennington County's bond rating is "Baa1" from Moody's. The bond rating is affected by overlapping debt of the school districts and cities.

Additional information on the County's long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The unemployment rate for Pennington County was 7.0 percent as of December 31, 2005. This is higher than the statewide rate of 4.0 percent and the national average rate of 4.6 percent.
- On November 22, 2005, the Pennington County set its 2006 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of Pennington County for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Kenneth Olson, Pennington County Auditor, P.O. Box 616, Thief River Falls, Minnesota 56701.

BASIC FINANCIAL STATEMENTS

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 1

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

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 5,179,449	\$ -	\$ 5,179,449
Taxes receivable - prior	225,856	-	225,856
Special assessments receivable - prior	11,524	-	11,524
Accounts receivable	94,001	456,994	550,995
Accrued interest receivable	12,973	-	12,973
Internal balances	194,375	(194,375)	-
Due from other governments	1,561,872	-	1,561,872
Prepaid items	-	45,095	45,095
Inventories	366,471	-	366,471
Deferred debt issuance costs	49,607	-	49,607
Special assessments receivable - noncurrent	51,208	-	51,208
Restricted cash and pooled investments	-	2,717	2,717
Due from unrestricted assets	-	8,732	8,732
Capital assets -			
Non-depreciable	4,519,156	11,800	4,530,956
Depreciable - net of accumulated depreciation	47,502,633	584,180	48,086,813
Total Assets	\$ 59,769,125	\$ 915,143	\$ 60,684,268
<u>Liabilities</u>			
Accounts payable	\$ 316,327	\$ 42,113	\$ 358,440
Salaries payable	179,888	23,976	203,864
Contracts payable	52,227	-	52,227
Due to other governments	119,873	17,416	137,289
Accrued interest payable	59,153	-	59,153
Due to restricted assets	-	8,732	8,732
Long-term liabilities			
Due within one year	496,209	120,765	616,974
Due in more than one year	3,853,228	100,270	3,953,498
Total Liabilities	\$ 5,076,905	\$ 313,272	\$ 5,390,177
<u>Net Assets</u>			
Invested in capital assets, net of related debt	\$ 48,444,249	\$ 526,605	\$ 48,970,854
Restricted for			
General government	359,967	-	359,967
Public safety	87,126	-	87,126
Debt service	138,497	-	138,497
Endowment	-	11,449	11,449
Unrestricted	5,662,381	63,817	5,726,198
Total Net Assets	\$ 54,692,220	\$ 601,871	\$ 55,294,091

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

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

	Expenses	Program Revenues	
		Fees, Charges, Fines and Other	Operating Grants and Contributions
Functions/Programs			
Governmental activities			
General government	\$ 1,812,728	\$ 603,163	\$ 2,800
Public safety	2,739,901	1,249,636	372,326
Highways and streets	1,953,049	245,030	1,871,597
Sanitation	69,213	52,134	49,079
Human services	4,428,001	278,587	2,365,757
Health	41,615	-	9,750
Culture and recreation	126,514	-	51,163
Conservation of natural resources	400,127	5,915	36,142
Economic development	22,759	-	-
Interest	153,468	-	-
Total governmental activities	\$ 11,747,375	\$ 2,434,465	\$ 4,758,614
Business-type activities			
Oakland Park Nursing Home	\$ 3,031,530	\$ 2,841,703	\$ 8,893
Total	\$ 14,778,905	\$ 5,276,168	\$ 4,767,507

General revenues

Property taxes
 Grants and contributions not restricted to specific programs
 Payments in lieu of tax
 Investment earnings
 Miscellaneous
 Transfers

Total general revenues

Change in net assets

Net assets - January 1

Net assets - December 31

EXHIBIT 2

<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ -	\$ (1,206,765)	\$ -	\$ (1,206,765)
37,072	(1,080,867)	-	(1,080,867)
1,483,285	1,646,863	-	1,646,863
-	32,000	-	32,000
-	(1,783,657)	-	(1,783,657)
-	(31,865)	-	(31,865)
-	(75,351)	-	(75,351)
198,551	(159,519)	-	(159,519)
-	(22,759)	-	(22,759)
-	(153,468)	-	(153,468)
\$ 1,718,908	\$ (2,835,388)	\$ -	\$ (2,835,388)
\$ 3,433	\$ -	\$ (177,501)	\$ (177,501)
\$ 1,722,341	\$ (2,835,388)	\$ (177,501)	\$ (3,012,889)
	\$ 4,443,193	\$ -	\$ 4,443,193
	1,460,905	-	1,460,905
	23,097	-	23,097
	124,923	-	124,923
	-	1,983	1,983
	(226,000)	226,000	-
	\$ 5,826,118	\$ 227,983	\$ 6,054,101
	\$ 2,990,730	\$ 50,482	\$ 3,041,212
	51,701,490	551,389	52,252,879
	\$ 54,692,220	\$ 601,871	\$ 55,294,091

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 3

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

	General Fund	Special Revenue Funds			Other Governmental Funds (Statement 1)	Total Governmental Funds
		Road and Bridge	Human Services	Ditch		
Assets						
Cash and pooled investments	\$ 2,695,311	\$ 35,691	\$ 1,464,428	\$ 268,745	\$ 715,274	\$ 5,179,449
Taxes receivable - prior	101,909	38,098	70,213	-	15,636	225,856
Special assessments receivable - prior	-	-	-	11,524	-	11,524
Accounts receivable	38,802	17,065	30,594	-	7,540	94,001
Accrued interest receivable	12,973	-	-	-	-	12,973
Due from other funds	117,219	254	-	454	-	117,927
Due from other governments	233,990	1,071,011	255,700	1,171	-	1,561,872
Inventories	-	366,471	-	-	-	366,471
Advances to other funds	194,375	-	-	-	159,286	353,661
Special assessments receivable - noncurrent	-	-	-	51,208	-	51,208
Total Assets	\$ 3,394,579	\$ 1,528,590	\$ 1,820,935	\$ 333,102	\$ 897,736	\$ 7,974,942

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**EXHIBIT 3
(Continued)**

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

	General Fund	Special Revenue Funds			Other Governmental Funds (Statement 1)	Total Governmental Funds
		Road and Bridge	Human Services	Ditch		
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 55,868	\$ 34,323	\$ 187,082	\$ 37,876	\$ 1,178	\$ 316,327
Salaries payable	105,373	30,196	44,319	-	-	179,888
Contracts payable	-	52,227	-	-	-	52,227
Due to other funds	-	100,000	17,115	254	558	117,927
Due to other governments	22,970	436	96,317	-	150	119,873
Deferred revenue-unavailable	79,334	857,118	54,660	59,991	12,173	1,063,276
Advances from other funds	-	-	-	159,286	-	159,286
Total Liabilities	\$ 263,545	\$ 1,074,300	\$ 399,493	\$ 257,407	\$ 14,059	\$ 2,008,804
Fund Balances						
Reserved for						
Advances to other funds	\$ 194,375	\$ -	\$ -	\$ -	\$ 159,286	\$ 353,661
Attorney forfeited property	8,709	-	-	-	-	8,709
DARE	2,655	-	-	-	-	2,655
Debt service	-	-	-	-	308,286	308,286
Enhanced 911	74,184	-	-	-	-	74,184
Inventories	-	366,471	-	-	-	366,471
Law library	798	-	-	-	-	798
Missing heirs	11,749	-	-	-	-	11,749
Probation	(5,474)	-	-	-	-	(5,474)
Recorder's equipment	26,551	-	-	-	-	26,551
Sheriff's contingent fund	3,978	-	-	-	-	3,978
Sheriff's forfeited property	3,074	-	-	-	-	3,074
Technology	12,584	-	-	-	-	12,584
Unreserved						
Designated for capital improvements	274,407	-	-	-	-	274,407
Designated for cash flows	2,192,663	87,819	1,421,442	-	-	3,701,924
Designated for guard members	3,465	-	-	-	-	3,465
Designated for jail canteen	41,484	-	-	-	-	41,484
Designated for juvenile restitution	36,359	-	-	-	-	36,359
Designated for natural resources	9,854	-	-	-	-	9,854
Designated for war memorial	500	-	-	-	-	500
Undesignated	239,119	-	-	75,695	-	314,814
Unreserved, reported in nonmajor						
Special revenue funds	-	-	-	-	277,608	277,608
Debt service funds	-	-	-	-	138,497	138,497
Total Fund Balances	\$ 3,131,034	\$ 454,290	\$ 1,421,442	\$ 75,695	\$ 883,677	\$ 5,966,138
Total Liabilities and Fund Balances	\$ 3,394,579	\$ 1,528,590	\$ 1,820,935	\$ 333,102	\$ 897,736	\$ 7,974,942

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)	\$	5,966,138
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
<p>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		52,021,789
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.</p>		1,063,276
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
Accrued interest payable	\$ (59,153)	
General obligation bonds	(2,546,504)	
Compensated absences	(356,933)	
Deferred debt issuance costs	49,607	
Revolving loan	(1,446,000)	(4,358,983)
Net assets of governmental activities (Exhibit 1)	\$	<u>54,692,220</u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 5

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

	General Fund	Special Revenue Funds			Other Governmental Funds (Statement 2)	Total Governmental Funds
		Road and Bridge	Human Services	Ditch		
Revenues						
Taxes	\$ 2,169,156	\$ 737,976	\$ 1,316,695	\$ -	\$ 263,462	\$ 4,487,289
Special assessments	-	-	-	196,849	-	196,849
Licenses and permits	3,235	-	-	-	-	3,235
Intergovernmental	1,293,958	2,778,440	2,773,381	446	89,289	6,935,514
Charges for services	1,556,235	84,011	98,228	1,057	26,283	1,765,814
Fines and forfeits	31,333	-	-	-	-	31,333
Investment earnings	124,923	-	-	-	-	124,923
Miscellaneous	266,107	137,587	180,359	-	26,598	610,651
Total Revenues	\$ 5,444,947	\$ 3,738,014	\$ 4,368,663	\$ 198,352	\$ 405,632	\$ 14,155,608
Expenditures						
Current						
General government	\$ 1,766,403	\$ -	\$ -	\$ -	\$ -	\$ 1,766,403
Public safety	2,623,080	-	-	-	-	2,623,080
Highways and streets	-	3,028,457	-	-	-	3,028,457
Sanitation	-	-	-	-	62,050	62,050
Human services	41,228	-	4,402,804	-	-	4,444,032
Health	116,614	-	-	-	-	116,614
Culture and recreation	126,514	-	-	-	-	126,514
Conservation of natural resources	276,926	-	-	118,635	189	395,750
Economic development	22,759	-	-	-	-	22,759
Total Current	\$ 4,973,524	\$ 3,028,457	\$ 4,402,804	\$ 118,635	\$ 62,239	\$ 12,585,659
Capital outlay						
General government	\$ 23,419	\$ -	\$ -	\$ -	\$ -	\$ 23,419
Public safety	519,704	-	-	-	-	519,704
Highways and streets	-	70,640	-	-	-	70,640
Sanitation	-	-	-	-	49,296	49,296
Total Capital Outlay	\$ 543,123	\$ 70,640	\$ -	\$ -	\$ 49,296	\$ 663,059
Debt service						
Principal retirement	15,419	69,000	-	-	460,000	544,419
Interest	-	47,571	-	3,778	113,966	165,315
Total Debt Service	\$ 15,419	\$ 116,571	\$ -	\$ 3,778	\$ 573,966	\$ 709,734
Total Expenditures	\$ 5,532,066	\$ 3,215,668	\$ 4,402,804	\$ 122,413	\$ 685,501	\$ 13,958,452

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**EXHIBIT 5
(Continued)**

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

	General Fund	Special Revenue Funds			Other Governmental Funds (Statement 2)	Total Governmental Funds
		Road and Bridge	Human Services	Ditch		
Excess of Revenues Over (Under) Expenditures	\$ (87,119)	\$ 522,346	\$ (34,141)	\$ 75,939	\$ (279,869)	\$ 197,156
Other Financing Sources (Uses)						
Transfers in	\$ 104	\$ -	\$ -	\$ 454	\$ -	\$ 558
Transfers out	(226,000)	-	-	-	(558)	(226,558)
Total Other Financing Sources (Uses)	\$ (225,896)	\$ -	\$ -	\$ 454	\$ (558)	\$ (226,000)
Net Change in Fund Balance	\$ (313,015)	\$ 522,346	\$ (34,141)	\$ 76,393	\$ (280,427)	\$ (28,844)
Fund Balance - January 1	3,444,049	(114,531)	1,455,583	(698)	1,164,104	5,948,507
Increase (decrease) in reserved for inventories	-	46,475	-	-	-	46,475
Fund Balance - December 31	<u>\$ 3,131,034</u>	<u>\$ 454,290</u>	<u>\$ 1,421,442</u>	<u>\$ 75,695</u>	<u>\$ 883,677</u>	<u>\$ 5,966,138</u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) **\$ (28,844)**

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

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

Expenditures for general capital assets, infrastructure, and other related capital assets adjustment	\$ 2,931,019	
Current year depreciation	(1,353,994)	1,577,025

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		808,497
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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:		
Capital improvement bonds	\$ 460,000	
Revolving loan	69,000	
Capital lease	15,419	544,419

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.

Advance to Nursing Home	\$ 74,999	
Amortization of discounts and deferred issuance charges	11	
Change in accrued interest payable	8,058	
Change in compensated absences	(39,910)	
Change in inventories	46,475	89,633

Change in net assets of governmental activities (Exhibit 2) **\$ 2,990,730**

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2005**

**Oakland Park
Nursing Home
Enterprise Fund**

<u>Assets</u>	
Current Assets	
Accounts receivable	\$ 456,994
Prepaid items	45,095
Total Current Assets	\$ 502,089
Restricted Assets	
Cash and pooled investments	\$ 2,717
Due from unrestricted assets-temporary	8,732
Total Restricted Assets	\$ 11,449
Noncurrent Assets	
Capital assets	
Non-depreciable	\$ 11,800
Depreciable - net of accumulated depreciation	584,180
Total Noncurrent Assets	\$ 595,980
Total Assets	\$ 1,109,518
<u>Liabilities</u>	
Current Liabilities	
Accounts payable	\$ 42,113
Salaries payable	23,976
Compensated absences payable	120,765
Due to restricted assets	8,732
Due to other governments	17,416
Advances from other funds	3,750
Total Current Liabilities	\$ 216,752
Noncurrent Liabilities	
Compensated absences payable - long-term	\$ 100,270
Advances from other funds - long-term	190,625
Total Noncurrent Liabilities	\$ 290,895
Total Liabilities	\$ 507,647
<u>Net Assets</u>	
Invested in capital assets, net of related debt	\$ 526,605
Restricted for	
Endowments	11,449
Unrestricted	63,817
Total Net Assets	\$ 601,871

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

		<u>Oakland Park Nursing Home Enterprise Fund</u>
Operating Revenues		
Charges for services	\$	2,834,734
Meals		6,632
Miscellaneous		337
		<hr/>
Total Operating Revenues	\$	2,841,703
		<hr/>
Operating Expenses		
Administration	\$	941,702
Assisted living		9,300
Dietary services		390,194
Housekeeping		82,354
Laundry		63,274
Maintenance services		159,940
Nursing services		1,096,805
Other care related		215,571
Depreciation		71,307
		<hr/>
Total Operating Expenses	\$	3,030,447
		<hr/>
Operating Income (Loss)	\$	(188,744)
		<hr/>
Nonoperating Revenues (Expenses)		
Gifts and bequests	\$	2,350
Intergovernmental		8,893
Miscellaneous		1,983
Transfers in		226,000
		<hr/>
Total Nonoperating Revenues (Expenses)	\$	239,226
		<hr/>
Change in Net Assets	\$	50,482
		<hr/>
Net Assets - October 1		551,389
		<hr/>
Net Assets - September 30	\$	601,871
		<hr/> <hr/>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2005
Increase (Decrease) in Cash and Cash Equivalents**

		Oakland Park Nursing Home Enterprise Fund
Cash Flows from Operating Activities		
Receipts from residents, programs, and other revenue	\$	2,755,411
Payments to employees		(1,925,332)
Payments to suppliers		(1,074,879)
		(244,800)
Net cash provided by (used in) operating activities	\$	(244,800)
Cash Flows from Noncapital Financing Activities		
Intergovernmental	\$	8,893
Miscellaneous payment		1,983
Restricted gifts and bequests		2,350
Transfer from Pennington County		226,000
		239,226
Net cash provided by (used in) noncapital financing activities	\$	239,226
Cash Flows from Capital and Related Financing Activities		
Repayment of advance from Pennington County	\$	(4,688)
Purchases of capital assets		(18,745)
		(23,433)
Net cash provided by (used in) capital and related financing activities	\$	(23,433)
Net Increase (Decrease) in Cash and Cash Equivalents	\$	(29,007)
Cash and Cash Equivalents at October 1		31,724
Cash and Cash Equivalents at September 30	\$	2,717

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2005
Increase (Decrease) in Cash and Cash Equivalents**

	Oakland Park Nursing Home Enterprise Fund
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (188,744)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	71,307
Decrease (Increase) in assets	
Accounts receivable	(86,293)
Prepaid items	5,980
Increase (Decrease) in liabilities	
Accounts payable	1,406
Salaries payable	(59,311)
Due to other governments	(801)
Compensated absences	11,656
Total adjustments	\$ (56,056)
Net cash provided by (used in) operating activities	\$ (244,800)

Noncash Investing, Capital, and Financing Activities:

In 2005, the Nursing Home deleted capital assets valued at \$36,996, as a result of a change in capitalization policy.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 10

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

	<u>Agency (Statement 7)</u>
<u>Assets</u>	
Cash and pooled investments	\$ 479,168
Due from other funds	17,684
Total Assets	<u>\$ 496,852</u>
<u>Liabilities</u>	
Accounts payable	\$ 1,662
Due to other funds	17,684
Due to other governments	476,132
Residents' funds	1,374
Total Liabilities	<u>\$ 496,852</u>

PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

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

I. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). 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, 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

Pennington County was established November 23, 1910, and is an organized county having the powers, duties, and privileges granted counties by Minnesota Statutes, Chapter 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Auditor, elected on a County-wide basis, serves as the clerk of the Board but has no vote.

The County participates in joint ventures and jointly-governed organizations which are described in Notes section V, subdivisions D and E, respectively.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) include the financial activities of the overall County government, except for the 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.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities 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, charges, and fines 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.

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 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 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.

The Ditch Special Revenue Fund is used to account for the operation and maintenance of County and joint county drainage systems. Financing is provided by special assessments levied against benefited properties.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major enterprise fund:

The Oakland Park Nursing Home Enterprise Fund is used to account for the operations of the County nursing home.

Additionally, the County reports the following funds types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

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

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 agency 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. 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. The 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, 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 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.

As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements.

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

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

I. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Cash and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2005, based on market prices. Pursuant to Minnesota Statute, § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Pooled investment earnings for 2005 were \$124,923.

Pennington 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 Minnesota Statute, § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

3. Receivables and Payables

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 due on October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as prior taxes receivable.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current 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 government funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectible amounts, if applicable.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

I. 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 weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories in the proprietary fund 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 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 land, construction in progress, infrastructure (e.g., roads, bridges, and similar items), buildings and improvements, land improvements, and machinery and equipment, are reported in the applicable government-wide financial statements. Capital assets have initial useful lives extending beyond two years and a dollar amount for capitalization per asset of \$5,000, except all land and construction in progress which is capitalized regardless of cost. Capital assets are recorded at historical cost or estimated historical cost when 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 extended the life of the asset 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.

Infrastructure, buildings and improvements, land improvements, and machinery and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	50-75
Buildings and improvements	5-40
Land improvements	10-20
Machinery and equipment	5-20

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

I. 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 vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide and proprietary 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

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

9. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental and business-type activities. 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 when issued. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Net Assets and Fund Balance

Certain funds of the County are classified as restricted net 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, grantor, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

10. Net Assets and Fund Balance (Continued)

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.

II. Stewardship, Compliance, and Accountability

A. Individual Fund Deficits of Equity Accounts

15 of the 45 active ditch systems incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following shows the unreserved, undesignated fund balance as of December 31, 2005:

Account balance	\$ 101,114
Account deficit	<u>(359,101)</u>
Fund Balance	<u>\$ (257,987)</u>

B. Land Management

The County manages approximately 2,170 acres of state-owned tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Cash and Investments

The County's total cash and investments as of December 31, 2005 are reported as follows:

Governmental funds		
Cash and pooled investments	\$	5,179,449
Proprietary funds		
Restricted cash and pooled investments		2,717
Fiduciary funds		
Cash and pooled investments		479,168
Total Cash and Investments	\$	5,661,334
Cash on hand	\$	1,775
Certificates of deposit		200,000
Deposits in bank		2,191,296
Negotiable certificates of deposit		595,000
Prime Value Treasury Mutual Fund		2,000,000
Minnesota Association of Governments Investing for Counties (MAGIC) Fund		800,000
Change in Nursing Home Enterprise Fund cash from September 30 to December 31, 2005		(126,737)
Total Cash and Investments	\$	5,661,334

Deposits

Minnesota Statutes, §§ 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 Board. Minnesota Statute, § 118A.03 requires that all County deposits be covered by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

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

Custodial Credit Risk

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

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Cash and Investments

Custodial Credit Risk (Continued)

covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

Investments

Minnesota Statutes, §§ 118A.04 and 118A.05 generally authorize the following types of investments 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 Minnesota Statute, § 118A.04, subdivision 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 certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

Credit Risk

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

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Cash and Investments

Credit Risk (Continued)

rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are held in the County's name and collateral for repurchase agreements is held in the County's name by third party agents. At December 31, 2005, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. Pennington County mitigates the concentration of credit risk by purchasing negotiable certificates of deposit from multiple banks and investments in a money market account invested in U.S. Treasury Notes.

2. Receivables

Receivables as of December 31, 2005, for the County's governmental activities and as of September 30, 2005, for the County's business-type activities, including any 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	\$ 225,856	\$ -
Special Assessments	62,732	51,208
Accounts	94,001	-
Due from other governments	1,561,872	-
Accrued interest	12,973	-
Total Governmental Activities	\$ 1,957,434	\$ 51,208
Business-Type Activities		
Accounts	\$ 456,994	\$ -

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the governmental activities for the year ended December 31, 2005, and for the business-type activities for the year ended September 30, 2005, was as follows:

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 486,519	\$ 22,500	\$ -	\$ 509,019
Construction in progress, as restated	<u>3,043,939</u>	<u>1,272,690</u>	<u>306,492</u>	<u>4,010,137</u>
Total capital assets not depreciated	<u>\$ 3,530,458</u>	<u>\$ 1,295,190</u>	<u>\$ 306,492</u>	<u>\$ 4,519,156</u>
Capital assets being depreciated				
Infrastructure	\$ 55,058,998	\$ 1,562,448	\$ -	\$ 56,621,446
Buildings	5,658,194	11,202	-	5,669,396
Machinery and equipment	<u>3,144,420</u>	<u>482,332</u>	<u>113,661</u>	<u>3,513,091</u>
Total capital assets being depreciated	<u>\$ 63,861,612</u>	<u>\$ 2,055,982</u>	<u>\$ 113,661</u>	<u>\$ 65,803,933</u>
Less: accumulated depreciation for				
Infrastructure	\$ 12,420,394	\$ 1,044,026	\$ -	\$ 13,464,420
Buildings	2,506,781	170,796	-	2,677,577
Machinery and equipment	<u>2,020,131</u>	<u>223,669</u>	<u>84,497</u>	<u>2,159,303</u>
Total accumulated depreciation	<u>\$ 16,947,306</u>	<u>\$ 1,438,491</u>	<u>\$ 84,497</u>	<u>\$ 18,301,300</u>
Total capital assets depreciated, net	<u>\$ 46,914,306</u>	<u>\$ 617,491</u>	<u>\$ 29,164</u>	<u>\$ 47,502,633</u>
Governmental Activities Capital Assets, Net	<u>\$ 50,444,764</u>	<u>\$ 1,912,681</u>	<u>\$ 335,656</u>	<u>\$ 52,021,789</u>

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 11,800	\$ -	\$ -	\$ 11,800
Capital assets being depreciated				
Land improvements	\$ 60,168	\$ -	\$ -	\$ 60,168
Buildings and improvements	1,874,081	13,877	-	1,887,958
Equipment	<u>570,643</u>	<u>4,868</u>	<u>36,996</u>	<u>538,515</u>
Total capital assets being depreciated	<u>\$ 2,504,892</u>	<u>\$ 18,745</u>	<u>\$ 36,996</u>	<u>\$ 2,486,641</u>
Less: accumulated depreciation for				
Land improvements	\$ 49,436	\$ 1,381	\$ -	\$ 50,817
Buildings and improvements	1,351,415	52,644	-	1,404,059
Equipment	<u>467,298</u>	<u>17,283</u>	<u>36,996</u>	<u>447,585</u>
Total accumulated depreciation	<u>\$ 1,868,149</u>	<u>\$ 71,308</u>	<u>\$ 36,996</u>	<u>\$ 1,902,461</u>
Total capital assets depreciated, net	<u>\$ 636,743</u>	<u>\$ (52,563)</u>	<u>\$ -</u>	<u>\$ 584,180</u>
Business-Type Activities Capital Assets, Net	<u>\$ 648,543</u>	<u>\$ (52,563)</u>	<u>\$ -</u>	<u>\$ 595,980</u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Depreciation expense was charged to functions of the County as follows:

Governmental Activities		
General government	\$	38,815
Public safety		121,356
Highways and streets, including depreciation of infrastructure assets		1,221,322
Human services		12,259
Sanitation		<u>44,739</u>
Total Depreciation Expense – Governmental Activities	\$	<u>1,438,491</u>
Business-Type Activities		
Oakland Park Nursing Home	\$	<u>71,308</u>

4. Construction Commitments

The County has active construction commitments as of December 31, 2005. The commitments include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Highways and streets	<u>\$ 1,018,945</u>	<u>\$ 504,827</u>

Construction commitments are being financed by County taxes and intergovernmental revenue from local, state, and federal agencies.

B. Interfund Receivables, Payables, and Transfers

Due To/From Other Funds

The composition of due to/from other funds as of December 31, 2005, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
General Fund	Road and Bridge SRF	\$ 100,000	Cash flow
	Human Services SRF	17,115	Charges for services
	Other Governmental	<u>104</u>	Forfeited tax settlement
Total Due to General Fund		<u>\$ 117,219</u>	
Road and Bridge Special Revenue Fund	Ditch SRF	254	Charges for services
Ditch Special Revenue Fund	Other Governmental	<u>454</u>	Forfeited tax settlement
Total Due To/From Other Funds		<u>\$ 117,927</u>	

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds

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

Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
General Fund	Oakland Park Nursing Home Enterprise Fund	\$ 194,375	Operations
Other Governmental	Ditch SRF	<u>159,286</u>	Cash flow
Total Advances From/To Other Funds		<u>\$ 353,661</u>	

These amounts will be paid back with future tax collections and operating revenues.

Interfund Transfers

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

Transfers to General Fund from other nonmajor governmental funds	\$ 104	Forfeited tax sale proceeds
Transfer to Ditch Special Revenue Fund from other nonmajor governmental funds	<u>454</u>	Forfeited tax sale proceeds
Total Interfund Transfers	<u>\$ 558</u>	

C. Liabilities

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 funds also defer recognition in connection with resources that have been received, but not yet earned. As of December 31, 2005, Governmental Funds reported the following various components of deferred unavailable revenues:

	<u>Deferred Unavailable</u>
Taxes	\$ 175,826
Special Assessments	59,991
Contracts	<u>827,459</u>
Total Deferred Revenue	<u>\$ 1,063,276</u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities (Continued)

Long-Term Debt

Governmental Activities

<u>Types of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amounts</u>	<u>Outstanding Balance December 31, 2005</u>
General Obligation Bonds					
1998 G.O. Jail Bonds	2014	\$45,000-\$70,000	4.45	\$ 750,000	\$ 515,000
1998 G.O. Capital Improvement Bonds	2019	\$35,000-\$150,000	4.53	1,410,000	1,255,000
2004 G.O. Capital Improvement Bonds	2014	\$40,000-\$65,000	3.44	535,000	495,000
2004 G.O. Refunding Bonds	2011	\$50,000-\$55,000	4.34	310,000	310,000
				\$ 3,005,000	\$ 2,575,000
Less bond discount				-	28,496
Total General Obligation Bonds				\$ 3,005,000	\$ 2,546,504

Loans Payable

In 2001, the County entered into a Transportation Revolving Fund Loan agreement with the Minnesota Public Facilities Authority for financing of highway construction.

<u>Types of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amounts</u>	<u>Outstanding Balance December 31, 2005</u>
2001 Transportation Loan	2021	\$71,000-\$113,000	3.14	\$ 2,000,000	\$ 1,446,000

Debt Service Requirements

Governmental Activities

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

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>		<u>Transportation Loan</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 180,000	\$ 99,805	\$ 71,000	\$ 45,404	\$ 251,000	\$ 145,209
2007	190,000	93,918	73,000	43,175	263,000	137,093
2008	190,000	87,512	75,000	40,883	265,000	128,395
2009	200,000	80,601	78,000	38,528	278,000	119,129
2010	210,000	72,998	80,000	36,079	290,000	109,077
2011-2015	1,050,000	229,189	441,000	141,017	1,491,000	370,206
2016-2020	555,000	51,347	515,000	67,196	1,070,000	118,543
2021	-	-	113,000	3,548	113,000	3,548
	\$ 2,575,000	\$ 715,370	\$ 1,446,000	\$ 415,830	\$ 4,021,000	\$ 1,131,200
Less bond discount	28,496	-	-	-	28,496	-
Total	\$ 2,546,504	\$ 715,370	\$ 1,446,000	\$ 415,830	\$ 3,992,504	\$ 1,131,200

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities (Continued)

Changes in Long-Term Liabilities

Long-term liability for activity for the governmental activities for the year ended December 31, 2005, and for the business-type activities for the year ended September 30, 2005, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds (net of discount)	\$ 3,006,256	\$ -	\$ 459,752	\$ 2,546,504	\$ 180,000
Loans payable	1,515,000	-	69,000	1,446,000	71,000
Capital leases	15,419	-	15,419	-	-
Compensated absences	<u>317,023</u>	<u>417,472</u>	<u>377,563</u>	<u>356,932</u>	<u>245,209</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 4,853,698</u>	<u>\$ 417,472</u>	<u>\$ 921,734</u>	<u>\$ 4,349,436</u>	<u>\$ 496,209</u>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	<u>\$ 209,379</u>	<u>\$ 195,782</u>	<u>\$ 184,126</u>	<u>\$ 221,035</u>	<u>\$ 120,765</u>

IV. Pension Plans

Defined Benefits Plans

Plan Description

All full-time and certain part-time employees of the 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 Employee's 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 Minnesota Statutes, Chapters 353 and 356.

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

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

IV. Pension Plans

Defined Benefits Plans

Plan Description (Continued)

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

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3 percent for each year of service. For Public Employees Correctional Fund Members, the annuity accrual rate is 1.9 percent for each year of service.

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

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

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

Funding Policy

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

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

IV. Pension Plans

Defined Benefits Plans

Funding Policy (Continued)

covered salary in 2005. That rate increased to 7.00 percent in 2006. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

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

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

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2005	\$ 151,759	\$ 34,112	\$ 74,254
2004	145,914	33,682	72,591
2003	145,834	33,650	70,511

The Nursing Home's contributions to Public Employees Retirement Fund for the years ending September 30, 2005, 2004, and 2003, were \$83,265, \$79,189, and \$81,947, respectively.

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

Other Post-Employment Benefits – Retirees

In accordance with Minnesota Statutes, the County provides post-retirement health care benefits for certain retirees and their dependents. As of year-end, the County has eight eligible participants. The County pays these benefits and is fully reimbursed by each participant. During 2005, the County expended \$43,470 for these benefits.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT) to cover workers' compensation and property and casualty liabilities. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

The Worker's Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$760,000 and \$790,000 per claim in 2005 and 2006, respectively. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

C. Agricultural Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for repayment of the loans in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2005.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

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

D. Joint Ventures

Inter-County Nursing Service

The Inter-County Nursing Service was formed in 1978 under the authority of the Joint Powers Act, pursuant to Minnesota Statutes, § 471.59, and includes Pennington and Red Lake Counties. The purpose of the Nursing Service is to provide, through visits to individuals' homes, skilled public nursing care on a part-time or intermittent basis to residents of Pennington and Red Lake Counties.

Control of the Nursing Service is vested in the Inter-County Nursing Service Board, which is composed of one county commissioner and four others from each county, and a physician who may be from either county. In the event of dissolution of the Inter-County Nursing Service Board, the net assets of the Nursing Service at that time shall be divided between the counties in proportion to the contribution of each.

The Nursing Service has no long-term debt. Financing is provided by state and federal grants, charges for services, and appropriations from the two counties. Pennington County contributed \$41,594 to the Nursing Service for the year ended December 31, 2005. Pennington County, in an agent capacity, reports the cash transactions of the Nursing Service as an agency fund on its financial statements. Complete financial information can be obtained from the Pennington County Auditor's Office or the Nursing Service's office, P.O. Box 616, Thief River Falls, Minnesota 56701.

Northern Counties Land Use Coordinating Board

The Northern Counties Land Use Coordinating Board was established September 22, 1993, and amended May 4, 1995, under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Beltrami, Clearwater, Cook, Itasca, Koochiching, Lake, Lake of the Woods, Marshall, Pennington, and St. Louis Counties. The purpose of the Land Use Coordinating Board is to formulate land use plans or general policies needed for the protection, sustainable use, and development of lands and natural resources in Northern Minnesota.

The Northern Counties Land Use Coordinating Board is composed of two elected county commissioners from each member county except St. Louis County, which has three members, as provided in the Land Use Coordinating Board's bylaws.

In the event of dissolution of the Northern Counties Land Use Coordinating Board, the net assets shall be distributed to the respective member counties in proportion to the contribution of each.

The Land Use Coordinating Board has no long-term debt. Financing is provided by appropriations from member counties. Pennington County contributed \$2,500 to the Land Use Coordinating Board for the year ended December 31, 2005. St. Louis County, in an agent capacity, reports the cash transactions as an agency fund on its financial statements. Complete financial information can be obtained from the St. Louis County Auditor, 100 North Fifth Avenue West, Duluth, Minnesota 55802.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Northwest Minnesota Household Hazardous Waste Management Group

The Northwest Minnesota Household Hazardous Waste Management Group was formed in 1992 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Beltrami, Clearwater, Kittson, Lake of the Woods, Marshall, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Waste Management Group is to cooperatively manage, handle, and transport household hazardous waste, provide public education on safe waste management, and provide for the disposition of non-recyclable household hazardous waste materials.

Control of the Waste Management Group is vested in the Northwest Minnesota Household Hazardous Waste Management Group Joint Powers Board, which is composed of one county commissioner from each of the member counties, as provided in the Waste Management Group's bylaws.

Responsibility for budgeted expenditures is shared with the first 50 percent divided equally among the member counties, and the remaining 50 percent divided on a population-ratio basis. In the event of dissolution, the net assets shall be divided among the member counties in the same proportion as their respective financial responsibilities.

The Waste Management Group has no long-term debt. Financing is provided by appropriations from the member counties when needed. Pennington County disbursed \$5,535 to the Waste Management Group for the year ended December 31, 2005. Clearwater County, in an agent capacity, reports the cash transactions as an agency fund on its financial statements. Complete financial information can be obtained from the Clearwater County Auditor's Office or the Waste Management Group's office, P.O. Box 186, Bagley, Minnesota 56621.

Northwest Minnesota Six County Joint Powers Board

The Northwest Minnesota Six County Joint Powers Board was formed in 1994 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Beltrami, Clearwater, Marshall, Pennington, Polk, and Red Lake Counties. The purpose of the Board is to receive and expend funds for beaver damage control.

The Northwest Minnesota Six County Joint Powers Board is composed of one representative appointed by each county board from the six counties. Each county also has one alternate appointed to the Board, and the Board may choose to have non-voting advisory members on the Board. In the event of dissolution, the net assets shall be distributed to the respective member counties in proportion to the contribution of each.

Financing is provided by grants from the State of Minnesota or contributions. Complete financial information can be obtained from the Red Lake Watershed District, P.O. Box 803, Thief River Falls, Minnesota 56701.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Northwestern Counties Data Processing Security Association

The Northwestern Counties Data Processing Security Association was formed in 1994 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 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 Association 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 Association is vested in the Northwestern Counties Data Processing Security Association Joint Powers Board, which is composed of one county commissioner appointed by each member county board. In the event of dissolution, the net assets of the Association at that time shall be distributed to the respective member counties in proportion to the contribution of each.

The Northwestern Counties Data Processing Security Association has no long-term debt. Financing is provided by state grants and appropriations from member counties when needed. Pennington County contributed \$1,000 to the Association for the year ended December 31, 2005. Clearwater County, in an agent capacity, reports the cash transactions of the Association as an agency fund on its financial statements. Complete financial information can be obtained from the Clearwater County Auditor's Office, 213 North Main Avenue, Bagley, Minnesota 56621. Effective January 1, 2006, Lake of the Woods County assumed the duties of fiscal agent and complete financial information can be obtained from the Lake of the Woods County Auditor's Office, P.O. Box 808, Baudette, MN 56623.

Northwestern Minnesota Juvenile Center

The Northwestern Minnesota Juvenile Center was formed under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, effective August 1971, and includes Beltrami, Cass, Clearwater, Hubbard, Kittson, Lake of the Woods, Pennington, and Roseau Counties. The purpose of the Center is to provide rehabilitation and other services to juveniles under the jurisdiction of the court system. The offices of the Center are located in Bemidji, with satellite homes at various locations.

Control of the Center is vested in the Northwestern Minnesota Juvenile Center Joint Powers Board, which is composed of at least one member appointed by each participating county, as provided in the Center's bylaws. At present, there are 13 directors: Beltrami, Cass, Hubbard, Pennington, and Roseau Counties have two directors each; the other member counties have one director each. In the event of dissolution, the net assets of the Center shall be divided among the member counties in the same proportion as their respective financial responsibilities.

Financing is provided by state and federal grants, charges for services, and appropriations from member counties. Beltrami County, in an agent capacity, reports the cash transactions of the Northwestern Minnesota Juvenile Center as an agency fund on its financial statements. Complete financial information can be obtained from the Beltrami County Auditor's Office or at the Center's office, P.O. Box 247, Bemidji, Minnesota 56601.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Quin County Community Health Service

The Quin County Community Health Service was formed in 1978 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Kittson, Marshall, Pennington, Red Lake, and Roseau Counties. The purpose of the Health Service is to develop and implement policies and procedures to promote efficiency and economy in the delivery of community health services.

Control of the Health Service is vested in the Quin County Board of Health, which is composed of one member appointed from each of the member counties (total five members, as provided in the joint powers agreement). In the event of dissolution, the net assets of the Health Service shall be divided among the member counties in the same proportion as their respective financial responsibilities as determined by county population.

The Health Service has no long-term debt. Financing is provided by state and federal grants, charges for services, and appropriations from the member counties when needed. Marshall County, in an agent capacity, reports the cash transactions of the Health Service as an agency fund on its financial statements. Complete financial information can be obtained from the Marshall County Auditor/Treasurer's Office or the Health Service's office, Newfolden, Minnesota 56738.

Red Lake River Corridor

The Red Lake River Corridor Joint Powers Board was formed in 2003 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes the Cities of Thief River Falls, St. Hilaire, Red Lake Falls, Crookston, Fisher and East Grand Forks; the Counties of Polk, Red Lake, Pennington; and the Red Lake Band of Chippewa Reservation. The purpose of the Board is for the development and enhancement of recreational and natural resources along the Red Lake River.

The Red Lake River Corridor Joint Powers Board is composed of one member for each participating entity. Each participant may also have one alternate who, in the absence of the appointed member, may attend meetings and have all the duties and rights of the member. In the event of dissolution, the net assets shall be distributed to the respective members in proportion to the contribution of each.

Financing is provided by contributions from members. The County did not make a contribution to the Board in 2005. Complete financial information can be obtained from the Pembina Trail R C & D, 2605 Wheat Drive, Red Lake Falls, Minnesota 56750.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

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

E. Jointly-Governed Organizations

Job Training Partnership Act Joint Powers Agreement

The Job Training Partnership Act Joint Powers Agreement was formed in July 1994 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Kittson, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Joint Powers Agreement is to designate the members of the Northwest Regional Development Commission's Board of Directors as the Local Elected Officials to work with the Northwest Private Industry Council for the Northwest Service Delivery Area, including specific duties as listed in the Agreement.

Minnesota Counties Computer Consortium

The Minnesota Counties Computer Consortium was formed in 1979 pursuant to Minnesota Statute, § 471.59 and includes 24 counties. Control of the Consortium is vested in the Joint Data Processing Board which is composed of one representative and one alternate appointed by each member county. The County's responsibility does not extend beyond making this appointment.

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Becker, Beltrami, Clay, Clearwater, Itasca, Kittson, Lake, Lake of the Woods, Mahnommen, Marshall, McLeod, Morrison, Norman, Pennington, Polk, Red Lake, and Roseau Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee which is composed of ten directors, each with an alternate, who are appointed annually by each respective county board. The County contributed \$2,100 to the Caucus for the year ended December 31, 2005.

Multi-Cultural Events Center Joint Powers Board

The Multi-Cultural Events Center Joint Powers Board was formed in 1995 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Pennington County, the City of Thief River Falls, Independent School District No. 564, Northland Community College, and Northwest Technical College. The Joint Powers Board is composed of one director appointed by the governing body of each member, with one alternate designated for each director, as provided in the Joint Powers Board's bylaws. The County did not contribute to the Multi-Cultural Events Center Joint Powers Board in 2005.

Northwest Minnesota Multi-County Housing and Redevelopment Authority

The Northwest Minnesota Multi-County Housing and Redevelopment Authority (HRA) was formed pursuant to Minnesota Statute, § 469.004, effective September 1972, and includes Kittson, Marshall, Pennington, Polk, Red Lake, and Roseau Counties. Control of the HRA is vested in the HRA Board which is composed of six members with indefinite terms made up of one member appointed by each board of county commissioners. Pennington County's responsibility does not extend beyond making this appointment.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

Northwest Regional Library

The Northwest Regional Library was formed pursuant to Minnesota Statutes, §§ 134.20 and 471.59, effective January 1, 1981, and includes Kittson, Marshall, Pennington, Red Lake, and Roseau Counties. Control of the Library is vested in the Northwest Regional Library Board which is composed of 16 members with staggered terms made up of the following: one member appointed by each board of county commissioners who may be a member of the Board of Commissioners; one member appointed by each participating city; and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. Pennington County appropriated \$73,886 to the Library for the year ended December 31, 2005.

Northwest Workforce Service Area

The Northwest Workforce Service Area was formed in July 2000 under the authority of the Workforce Investment Act of 1998 (Public Law 105-22) and includes Kittson, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Service Area is to increase a participant's employment, retention, earnings, and occupational skill attainment and result in improved workforce quality, reduced welfare dependency, and enhanced productivity and competitiveness.

Control of the Northwest Workforce Service Area is vested in the Northwest Private Industry Council/Workforce Council, composed of 18 members with one representative from each of the seven counties, three members at large, and eight members representing local agencies. In the event of dissolution of the Northwest Workforce Service Area, unexpended funds will be disposed of in accordance with law.

The Northwest Workforce Service Area has no long-term debt. Financing is provided by state and local grants. Complete financial information can be obtained from the Northwest Regional Development Commission, 115 South Main, Warren, Minnesota 56762.

Pennington County Family Service Collaborative

The Pennington County Family Service Collaborative was formed pursuant to Minnesota Statute, § 124D.23, effective July 1, 1996, and includes Pennington County, Thief River Falls Independent School District 564, and the Inter-County Nursing Service. Control of the Collaborative is vested in the Family Service Collaborative Board and includes at least one member from the public entities along with other members of the general public. Pennington County has accepted responsibility as the fiscal agent for reporting, claiming, and receiving payments.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

Red Lake Watershed District

The Red Lake Watershed District was formed pursuant to Minnesota Statute, § 103D.201, effective January 25, 1969, and includes land within Beltrami, Clearwater, Itasca, Koochiching, Mahnomen, Marshall, Pennington, Red Lake, and Roseau Counties. Control of the District is vested in the Red Lake Watershed District Board of Managers which is composed of seven members having staggered terms of three years each, with two appointed by the Polk County Board and one each appointed by the County Boards of Beltrami, Clearwater, Marshall, Pennington, and Red Lake. Pennington County's responsibility does not extend beyond making this appointment.

REQUIRED SUPPLEMENTARY INFORMATION

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,877,045	\$ 2,877,045	\$ 2,169,156	\$ (707,889)
Licenses and permits	2,450	2,450	3,235	785
Intergovernmental	402,524	402,524	1,293,958	891,434
Charges for services	1,556,488	1,556,488	1,556,235	(253)
Fines and forfeitures	27,500	27,500	31,333	3,833
Investment earnings	40,000	40,000	124,923	84,923
Miscellaneous	273,064	273,064	266,107	(6,957)
Total Revenues	\$ 5,179,071	\$ 5,179,071	\$ 5,444,947	\$ 265,876
Expenditures				
Current				
General government				
Commissioners	\$ 186,972	\$ 186,972	\$ 190,356	\$ (3,384)
District court	27,900	27,900	28,410	(510)
Law library	24,000	24,000	16,166	7,834
County auditor	237,956	237,956	228,999	8,957
License bureau	171,974	171,974	164,841	7,133
County treasurer	95,499	95,499	96,994	(1,495)
County assessor	181,243	181,243	173,994	7,249
Elections	1,650	1,650	1,933	(283)
Data processing	84,106	84,106	83,605	501
Attorney	289,474	289,474	296,022	(6,548)
Recorder	140,530	140,530	154,037	(13,507)
Buildings and grounds	192,369	192,369	202,966	(10,597)
Veterinarian	259	259	258	1
Veterans service officer	51,989	51,989	52,730	(741)
Insurance	24,000	24,000	23,749	251
Other general government	79,200	79,200	51,343	27,857
Total general government	\$ 1,789,121	\$ 1,789,121	\$ 1,766,403	\$ 22,718

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

***Schedule 1
(Continued)***

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 690,062	\$ 690,062	\$ 680,016	\$ 10,046
Boat and water safety	2,500	2,500	2,520	(20)
Coroner	12,306	12,306	8,869	3,437
County jail	1,132,157	1,132,157	1,103,402	28,755
DARE program	2,500	2,500	3,676	(1,176)
Enhanced 911	1,500	1,500	4,174	(2,674)
Emergency services	48,400	48,400	48,716	(316)
Fire protection	7,500	7,500	7,500	-
Jail canteen fund	100,000	100,000	49,340	50,660
Juvenile justice	6,000	6,000	8,345	(2,345)
Law enforcement center	398,802	398,802	384,243	14,559
Probation and parole	34,000	34,000	18,564	15,436
Sentence to service	195,898	195,898	202,950	(7,052)
Snowmobile safety	2,500	2,500	990	1,510
Training	4,800	4,800	5,896	(1,096)
Victim assistance	101,104	101,104	93,879	7,225
Total public safety	\$ 2,740,029	\$ 2,740,029	\$ 2,623,080	\$ 116,949
Human Services				
Buildings and grounds	\$ 42,760	\$ 42,760	\$ 41,228	\$ 1,532
Health				
Nursing service	\$ 41,594	\$ 41,594	\$ 41,594	\$ -
Nursing home	-	-	74,062	(74,062)
County health officer	970	970	958	12
Total health	\$ 42,564	\$ 42,564	\$ 116,614	\$ (74,050)
Culture and recreation				
Historical society	\$ 13,000	\$ 13,000	\$ 13,000	\$ -
Parks	7,000	7,000	5,168	1,832
Regional library	73,886	73,886	73,886	-
Senior citizens	1,000	1,000	1,000	-
Snowmobile and ski trails	34,000	34,000	33,325	675
Other culture and recreation	4,016	4,016	135	3,881
Total culture and recreation	\$ 132,902	\$ 132,902	\$ 126,514	\$ 6,388

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

***Schedule 1
(Continued)***

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (Continued)				
Conservation of natural resources				
Agricultural society/county fair	\$ 13,543	\$ 13,543	\$ 13,543	\$ -
Agriculture inspection	200	200	96	104
Area Ag Information Center	6,000	6,000	6,000	-
Cooperative extension	138,040	138,040	131,109	6,931
Soil and water conservation	84,966	84,966	84,465	501
Water planning	41,163	41,163	41,163	-
Other conservation of natural resources	550	550	550	-
Total conservation of natural resources	\$ 284,462	\$ 284,462	\$ 276,926	\$ 7,536
Economic development				
Housing and Redevelopment Authority	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Minnesota Heartland	200	200	200	-
Red River Valley Development	800	800	800	-
Tri-Valley Opportunity Council	12,665	12,665	11,759	906
Total economic development	\$ 23,665	\$ 23,665	\$ 22,759	\$ 906
Capital outlay				
General government	\$ 27,000	\$ 27,000	\$ 23,419	\$ 3,581
Public safety	479,500	479,500	519,704	(40,204)
Total capital outlay	\$ 506,500	\$ 506,500	\$ 543,123	\$ (36,623)
Debt service				
Principal retirement	\$ 15,419	\$ 15,419	\$ 15,419	\$ -
Total Expenditures	\$ 5,577,422	\$ 5,577,422	\$ 5,532,066	\$ 45,356
Excess of Revenues Over (Under) Expenditures	\$ (398,351)	\$ (398,351)	\$ (87,119)	\$ 311,232
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 104	\$ 104
Transfers out	(226,000)	(226,000)	(226,000)	-
Total Other Financing Sources (Uses)	\$ (226,000)	\$ (226,000)	\$ (225,896)	\$ 104
Net Change in Fund Balance	\$ (624,351)	\$ (624,351)	\$ (313,015)	\$ 311,336
Fund Balance - January 1	3,444,049	3,444,049	3,444,049	-
Fund Balance - December 31	\$ 2,819,698	\$ 2,819,698	\$ 3,131,034	\$ 311,336

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,006,200	\$ 1,006,200	\$ 737,976	\$ (268,224)
Intergovernmental	3,973,496	3,973,496	2,778,440	(1,195,056)
Charges for services	60,000	60,000	84,011	24,011
Miscellaneous	162,500	162,500	137,587	(24,913)
Total Revenues	\$ 5,202,196	\$ 5,202,196	\$ 3,738,014	\$ (1,464,182)
Expenditures				
Current				
Highways and Streets				
Administration	\$ 222,918	\$ 222,918	\$ 215,679	\$ 7,239
Maintenance	508,544	488,544	354,622	133,922
Construction	2,900,000	2,900,000	1,090,571	1,809,429
Equipment maintenance and shop	1,043,444	1,077,880	1,133,220	(55,340)
Town roads	-	-	129,462	(129,462)
Other highways and streets	75,000	53,000	104,903	(51,903)
Total highways and streets	\$ 4,749,906	\$ 4,742,342	\$ 3,028,457	\$ 1,713,885
Capital Outlay				
Highways and streets	\$ 285,854	\$ 285,854	\$ 70,640	\$ 215,214
Debt service				
Principal retirement	\$ 69,000	\$ 69,000	\$ 69,000	\$ -
Interest	1,000	1,000	47,571	(46,571)
Total debt service	\$ 70,000	\$ 70,000	\$ 116,571	\$ (46,571)
Total Expenditures	\$ 5,105,760	\$ 5,098,196	\$ 3,215,668	\$ 1,882,528
Excess of Revenues Over (Under) Expenditures	\$ 96,436	\$ 104,000	\$ 522,346	\$ 418,346
Fund Balance - January 1	(114,531)	(114,531)	(114,531)	-
Increase (decrease) in reserved for inventories	-	-	46,475	46,475
Fund Balance - December 31	\$ (18,095)	\$ (10,531)	\$ 454,290	\$ 464,821

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,750,000	\$ 1,750,000	\$ 1,316,695	\$ (433,305)
Intergovernmental	2,575,000	2,575,000	2,773,381	198,381
Charges for services	128,000	128,000	98,228	(29,772)
Miscellaneous	2,000	2,000	180,359	178,359
Total Revenues	\$ 4,455,000	\$ 4,455,000	\$ 4,368,663	\$ (86,337)
Expenditures				
Current				
Human Services				
Income maintenance	\$ 1,200,000	\$ 1,200,000	\$ 1,083,040	\$ 116,960
Social services	4,250,000	4,250,000	3,319,764	930,236
Total Expenditures	\$ 5,450,000	\$ 5,450,000	\$ 4,402,804	\$ 1,047,196
Excess of Revenues Over (Under) Expenditures	\$ (995,000)	\$ (995,000)	\$ (34,141)	\$ 960,859
Fund Balance - January 1	1,455,583	1,455,583	1,455,583	-
Fund Balance - December 31	\$ 460,583	\$ 460,583	\$ 1,421,442	\$ 960,859

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 4

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special assessments	\$ 152,000	\$ 152,000	\$ 196,849	\$ 44,849
Intergovernmental	-	-	446	446
Charges for services	-	-	1,057	1,057
Total Revenues	\$ 152,000	\$ 152,000	\$ 198,352	\$ 46,352
Expenditures				
Current				
Conservation of natural resources				
Administration	\$ -	\$ -	\$ 499	\$ (499)
Ditch maintenance and repair	141,027	141,027	107,163	33,864
Middle River/Snake River Watershed	9,138	9,138	9,138	-
Red Lake Watershed	1,835	1,835	1,835	-
Total conservation of natural resources	\$ 152,000	\$ 152,000	\$ 118,635	\$ 33,365
Debt service				
Interest	-	-	3,778	(3,778)
Total Expenditures	\$ 152,000	\$ 152,000	\$ 122,413	\$ 29,587
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 75,939	\$ 75,939
Other Financing Sources (Uses)				
Transfers in	-	-	454	454
Net Change in Fund Balance	\$ -	\$ -	\$ 76,393	\$ 76,393
Fund Balance - January 1	(698)	(698)	(698)	-
Fund Balance - December 31	\$ (698)	\$ (698)	\$ 75,695	\$ 76,393

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

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

I. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end.

On or before the last Tuesday in August of each year, all departments and agencies submit requests for appropriations to the County Auditor so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review. The Board holds a public hearing, and then 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 (i.e., the level at which expenditures may not legally exceed appropriations) is the departmental level.

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

II. Excess of Expenditures Over Budget

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

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
Commissioners	\$ 190,356	\$ 186,972	\$ (3,384)
District court	28,410	27,900	(510)
County treasurer	96,994	95,499	(1,495)
Elections	1,933	1,650	(283)
Attorney	296,022	289,474	(6,548)
Recorder	154,037	140,530	(13,507)
Buildings and grounds	202,966	192,369	(10,597)
Veterans service officer	52,730	51,989	(741)
Public safety			
Boat and water safety	2,520	2,500	(20)
DARE program	3,676	2,500	(1,176)
Enhanced 911	4,174	1,500	(2,674)
Emergency services	48,716	48,400	(316)
Juvenile justice	8,345	6,000	(2,345)
Sentence to serve	202,950	195,898	(7,052)
Training	5,896	4,800	(1,096)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

II. Excess of Expenditures Over Budget (Continued)

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Health			
Nursing home	74,062	-	(74,062)
Capital outlay			
Public safety	519,704	479,500	(40,204)
Road and Bridge Special Revenue Fund			
Highways and streets			
Equipment maintenance and shop	1,133,220	1,077,880	(55,340)
Town roads	129,462	-	(129,462)
Other highways and streets	104,903	53,000	(51,903)
Debt service			
Interest	47,571	1,000	(46,571)
Ditch Special Revenue Fund			
Conservation of natural resources			
Administration	499	-	(499)
Debt service			
Interest	3,778	-	(3,778)

SUPPLEMENTARY INFORMATION

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The Forfeited Tax Sale Special Revenue Fund is used to account for proceeds from the sale or rental of lands forfeited to the State of Minnesota pursuant to Minnesota Statutes, Chapter 282 and various forest and timber management grants. The net proceeds, after deducting allowable expenses, are apportioned to various County funds and taxing districts. Titles to the tax-forfeited lands remains with the State until the lands are sold by the County.

The Solid Waste Special Revenue Fund is used to account for solid waste activities. Financing is provided by intergovernmental revenue and user service charges.

Debt Service Funds

The Elevator and Long's Bridge Debt Service Fund is used to account for the accumulation of resources for and the payment of, capital improvements bonds, interest, and related costs.

The Highway Capital Improvement Debt Service Fund is used to account for the accumulation of resources for and the payment of highway capital improvement bonds, interest, and related costs.

The Law Enforcement Radio Debt Service Fund is used to account for the accumulation of resources for and the payment of law enforcement radio bonds, interest, and related costs.

The Minimum Security Facility Debt Service Fund is used to account for the accumulation of resources for and the payment of minimum security facility bonds, interest, and related costs.

The Solid Waste Facility Debt Service Fund is used to account for the accumulation of resources for and the payment of solid waste facility bonds, interest, and related costs.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Statement 1

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

	Special Revenue (Statement 3)	Debt Service (Statement 5)	Total Nonmajor Governmental Funds (Exhibit 3)
<u>Assets</u>			
Cash and pooled investments	\$ 271,814	\$ 443,460	\$ 715,274
Taxes receivable - prior	631	15,005	15,636
Accounts receivable	7,540	-	7,540
Advances to other funds	159,286	-	159,286
Total Assets	\$ 439,271	\$ 458,465	\$ 897,736
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 1,178	\$ -	\$ 1,178
Due to other funds	558	-	558
Due to other governments	150	-	150
Deferred revenue-unavailable	491	11,682	12,173
Total Liabilities	\$ 2,377	\$ 11,682	\$ 14,059
Fund Balances			
Reserved for			
Advances to other funds	\$ 159,286	\$ -	\$ 159,286
Debt service	-	308,286	308,286
Unreserved			
Designated for cash flows	81,841	-	81,841
Designated for debt service	-	138,497	138,497
Undesignated	195,767	-	195,767
Total Fund Balances	\$ 436,894	\$ 446,783	\$ 883,677
Total Liabilities and Fund Balances	\$ 439,271	\$ 458,465	\$ 897,736

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Statement 2

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

	Special Revenue (Statement 4)	Debt Service (Statement 6)	Total Nonmajor Governmental Funds (Exhibit 5)
Revenues			
Taxes	\$ 175	\$ 263,287	\$ 263,462
Intergovernmental	49,079	40,210	89,289
Charges for services	26,283	-	26,283
Miscellaneous	26,598	-	26,598
	\$ 102,135	\$ 303,497	\$ 405,632
Expenditures			
Current			
Sanitation	\$ 62,050	\$ -	\$ 62,050
Conservation of natural resources	189	-	189
	\$ 62,239	\$ -	\$ 62,239
Capital outlay			
Sanitation	\$ 49,296	\$ -	\$ 49,296
Debt service			
Principal retirement	\$ -	\$ 460,000	\$ 460,000
Interest	-	113,966	113,966
	\$ -	\$ 573,966	\$ 573,966
Total Expenditures	\$ 111,535	\$ 573,966	\$ 685,501
Excess of Revenues Over (Under) Expenditures	\$ (9,400)	\$ (270,469)	\$ (279,869)
Other Financing Sources (Uses)			
Transfers out	(558)	-	(558)
Net Change in Fund Balance	\$ (9,958)	\$ (270,469)	\$ (280,427)
Fund Balance - January 1	446,852	717,252	1,164,104
Fund Balance - December 31	\$ 436,894	\$ 446,783	\$ 883,677

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Statement 3

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

	Forfeited Tax Sale	Solid Waste	Total (Statement 1)
<u>Assets</u>			
Cash and pooled investments	\$ 611	\$ 271,203	\$ 271,814
Taxes receivable - prior	-	631	631
Accounts receivable	-	7,540	7,540
Advances to other funds	-	159,286	159,286
Total Assets	\$ 611	\$ 438,660	\$ 439,271
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ -	\$ 1,178	\$ 1,178
Due to other funds	558	-	558
Due to other governments	53	97	150
Deferred revenue-unavailable	-	491	491
Total Liabilities	\$ 611	\$ 1,766	\$ 2,377
Fund Balances			
Reserved for advances to other funds	\$ -	\$ 159,286	\$ 159,286
Unreserved			
Designated for cash flows	-	81,841	81,841
Undesignated	-	195,767	195,767
Total Fund Balances	\$ -	\$ 436,894	\$ 436,894
Total Liabilities and Fund Balances	\$ 611	\$ 438,660	\$ 439,271

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Statement 4

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

	Forfeited Tax Sale	Solid Waste	Total (Statement 2)
Revenues			
Taxes	\$ -	\$ 175	\$ 175
Special assessments	-	-	-
Intergovernmental	-	49,079	49,079
Charges for services	-	26,283	26,283
Miscellaneous	747	25,851	26,598
Total Revenues	\$ 747	\$ 101,388	\$ 102,135
Expenditures			
Current			
Sanitation	\$ -	\$ 62,050	\$ 62,050
Conservation of natural resources	189	-	189
Total Current	\$ 189	\$ 62,050	\$ 62,239
Capital outlay			
Sanitation	-	49,296	49,296
Total Expenditures	\$ 189	\$ 111,346	\$ 111,535
Excess of Revenues Over (Under) Expenditures	\$ 558	\$ (9,958)	\$ (9,400)
Other Financing Sources (Uses)			
Transfers out	(558)	-	(558)
Net Change in Fund Balance	\$ -	\$ (9,958)	\$ (9,958)
Fund Balance - January 1	-	446,852	446,852
Fund Balance - December 31	\$ -	\$ 436,894	\$ 436,894

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
DECEMBER 31, 2005**

	Elevator and Long's Bridge	Highway Capital Improvement
<u>Assets</u>		
Cash and pooled investments	\$ 87,108	\$ 81,424
Taxes receivable - prior	3,157	4,390
Total Assets	\$ 90,265	\$ 85,814
<u>Liabilities and Fund Balances</u>		
Liabilities		
Deferred revenue - unavailable	\$ 2,458	\$ 3,418
Fund Balances		
Reserved for debt service	\$ 87,807	\$ 82,396
Unreserved		
Designated for debt service	-	-
Total Fund Balances	\$ 87,807	\$ 82,396
Total Liabilities and Fund Balances	\$ 90,265	\$ 85,814

Statement 5

Law Enforcement Radio	Minimum Security Facility	Solid Waste Facility	Total (Statement 1)
\$ 59,176	\$ 77,812	\$ 137,940	\$ 443,460
1,480	3,462	2,516	15,005
\$ 60,656	\$ 81,274	\$ 140,456	\$ 458,465
\$ 1,152	\$ 2,695	\$ 1,959	\$ 11,682
\$ 59,504	\$ 78,579	\$ -	\$ 308,286
-	-	138,497	138,497
\$ 59,504	\$ 78,579	\$ 138,497	\$ 446,783
\$ 60,656	\$ 81,274	\$ 140,456	\$ 458,465

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

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

	Elevator and Long's Bridge	Highway Capital Improvement
Revenues		
Taxes	\$ 56,853	\$ 83,145
Intergovernmental	8,475	12,793
	\$ 65,328	\$ 95,938
Expenditures		
Debt service		
Principal retirement	\$ 340,000	\$ 35,000
Interest	16,983	56,132
	\$ 356,983	\$ 91,132
Excess of Revenues Over (Under) Expenditures	\$ (291,655)	\$ 4,806
Fund Balance - January 1	379,462	77,590
Fund Balance - December 31	\$ 87,807	\$ 82,396

Statement 6

Law Enforcement Radio	Minimum Security Facility	Solid Waste Facility	Total (Statement 2)
\$ 56,013	\$ 66,808	\$ 468	\$ 263,287
8,657	10,285	-	40,210
\$ 64,670	\$ 77,093	\$ 468	\$ 303,497
\$ 40,000	\$ 45,000	\$ -	\$ 460,000
16,635	23,695	521	113,966
\$ 56,635	\$ 68,695	\$ 521	\$ 573,966
\$ 8,035	\$ 8,398	\$ (53)	\$ (270,469)
51,469	70,181	138,550	717,252
\$ 59,504	\$ 78,579	\$ 138,497	\$ 446,783

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SALE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Miscellaneous	\$ 1,000	\$ 1,000	\$ 747	\$ (253)
Expenditures				
Current				
Conservation of natural resources				
Forfeited land	\$ 442	\$ 442	\$ 189	\$ 253
Excess of Revenues Over (Under) Expenditures	\$ 558	\$ 558	\$ 558	\$ -
Other Financing Sources (Uses)				
Transfers out	(558)	(558)	(558)	-
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	\$ -	\$ -	\$ -	\$ -

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 6

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 325	\$ 325	\$ 175	\$ (150)
Intergovernmental	49,118	49,118	49,079	(39)
Charges for services	35,000	35,000	26,283	(8,717)
Miscellaneous	-	-	25,851	25,851
Total Revenues	\$ 84,443	\$ 84,443	\$ 101,388	\$ 16,945
Expenditures				
Current				
Sanitation				
Solid waste	\$ 26,500	\$ 26,500	\$ 40,616	\$ (14,116)
Recycling	34,118	34,118	16,589	17,529
Hazardous waste	15,000	15,000	4,845	10,155
Total Current	\$ 75,618	\$ 75,618	\$ 62,050	\$ 13,568
Capital outlay				
Sanitation	-	-	49,296	(49,296)
Total Expenditures	\$ 75,618	\$ 75,618	\$ 111,346	\$ (35,728)
Excess of Revenues Over (Under) Expenditures	\$ 8,825	\$ 8,825	\$ (9,958)	\$ (18,783)
Fund Balance - January 1	446,852	446,852	446,852	-
Fund Balance - December 31	\$ 455,677	\$ 455,677	\$ 436,894	\$ (18,783)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE
ELEVATOR AND LONG'S BRIDGE DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 66,961	\$ 66,961	\$ 56,853	\$ (10,108)
Intergovernmental	-	-	8,475	8,475
Total Revenues	\$ 66,961	\$ 66,961	\$ 65,328	\$ (1,633)
Expenditures				
Debt service				
Principal retirement	\$ 40,000	\$ 40,000	\$ 340,000	\$ (300,000)
Interest	18,638	18,638	16,983	1,655
Total Expenditures	\$ 58,638	\$ 58,638	\$ 356,983	\$ (298,345)
Excess of Revenues Over (Under) Expenditures	\$ 8,323	\$ 8,323	\$ (291,655)	\$ (299,978)
Fund Balance - January 1	379,462	379,462	379,462	-
Fund Balance - December 31	\$ 387,785	\$ 387,785	\$ 87,807	\$ (299,978)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 8

**BUDGETARY COMPARISON SCHEDULE
HIGHWAY CAPITAL IMPROVEMENT DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 97,074	\$ 97,074	\$ 83,145	\$ (13,929)
Intergovernmental	350	350	12,793	12,443
Total Revenues	\$ 97,424	\$ 97,424	\$ 95,938	\$ (1,486)
Expenditures				
Debt service				
Principal retirement	\$ 35,000	\$ 35,000	\$ 35,000	\$ -
Interest	55,758	55,758	56,132	(374)
Total Expenditures	\$ 90,758	\$ 90,758	\$ 91,132	\$ (374)
Excess of Revenues Over (Under) Expenditures	\$ 6,666	\$ 6,666	\$ 4,806	\$ (1,860)
Fund Balance - January 1	77,590	77,590	77,590	-
Fund Balance - December 31	\$ 84,256	\$ 84,256	\$ 82,396	\$ (1,860)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 9

**BUDGETARY COMPARISON SCHEDULE
LAW ENFORCEMENT RADIO DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 65,079	\$ 65,079	\$ 56,013	\$ (9,066)
Intergovernmental	-	-	8,657	8,657
Total Revenues	\$ 65,079	\$ 65,079	\$ 64,670	\$ (409)
Expenditures				
Debt service				
Principal retirement	\$ 40,000	\$ 40,000	\$ 40,000	\$ -
Interest	16,633	16,633	16,635	(2)
Total Expenditures	\$ 56,633	\$ 56,633	\$ 56,635	\$ (2)
Excess of Revenues Over (Under) Expenditures	\$ 8,446	\$ 8,446	\$ 8,035	\$ (411)
Fund Balance - January 1	51,469	51,469	51,469	-
Fund Balance - December 31	\$ 59,915	\$ 59,915	\$ 59,504	\$ (411)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 10

**BUDGETARY COMPARISON SCHEDULE
MINIMUM SECURITY FACILITY DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 77,881	\$ 77,881	\$ 66,808	\$ (11,073)
Intergovernmental	250	250	10,285	10,035
Total Revenues	\$ 78,131	\$ 78,131	\$ 77,093	\$ (1,038)
Expenditures				
Debt service				
Principal retirement	\$ 45,000	\$ 45,000	\$ 45,000	\$ -
Interest	23,696	23,696	23,695	1
Total Expenditures	\$ 68,696	\$ 68,696	\$ 68,695	\$ 1
Excess of Revenues Over (Under) Expenditures	\$ 9,435	\$ 9,435	\$ 8,398	\$ (1,037)
Fund Balance - January 1	70,181	70,181	70,181	-
Fund Balance - December 31	\$ 79,616	\$ 79,616	\$ 78,579	\$ (1,037)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 11

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE FACILITY DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 300	\$ 300	\$ 468	\$ 168
Expenditures				
Debt service				
Interest	-	-	521	(521)
Excess of Revenues Over (Under) Expenditures	\$ 300	\$ 300	\$ (53)	\$ (353)
Fund Balance - January 1	138,550	138,550	138,550	-
Fund Balance - December 31	\$ 138,850	\$ 138,850	\$ 138,497	\$ (353)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

AGENCY FUNDS

The Group Insurance Agency Fund is used to account for the employer's share of group insurance. Funds are provided for payment of the insurance from the General Fund and special revenue funds.

The Inter-County Nursing Service Agency Fund is used to account for the cash transactions of the Inter-County Nursing Service.

The Northwest Regional Development Commission Agency Fund is used to account for the collection and payment of funds due to the Northwest Regional Development Commission.

The Nursing Home Residents Agency Fund is used to account for money belonging to residents of Oakland Park Nursing Home, which is held in trust by the County.

The Prepaid Taxes Agency Fund is used to account for the payment of taxes prior to the preparation of tax statements or prior to January 1 of the year due.

The School Districts Agency Fund is used to account for the collection and payment of funds due to school districts.

The State Agency Fund is used to account for the collection and payment of funds due to the State of Minnesota.

The Taxes and Penalties Agency Fund is used to account for the collection of taxes, penalties, and special assessments and their payment to the various County funds and taxing districts.

The Towns and Cities Agency Fund is used to account for the collection and payment of funds due to towns and cities.

The Watersheds Agency Fund is used to account for the collection and payment of funds due to watershed districts.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Statement 7

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>GROUP INSURANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,516	\$ 1,030,963	\$ 1,031,817	\$ 1,662
<u>Liabilities</u>				
Accounts payable	\$ 2,516	\$ 1,030,963	\$ 1,031,817	\$ 1,662
 <u>INTER-COUNTY NURSING SERVICE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 200,223	\$ 1,252,337	\$ 1,244,342	\$ 208,218
<u>Liabilities</u>				
Due to other governments	\$ 200,223	\$ 1,252,337	\$ 1,244,342	\$ 208,218
 <u>NORTHWEST REGIONAL DEVELOPMENT COMMISSION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 19,365	\$ 19,365	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 19,365	\$ 19,365	\$ -

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

*Statement 7
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>NURSING HOME RESIDENTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,588	\$ 2,496	\$ 2,710	\$ 1,374
<u>Liabilities</u>				
Residents' Funds	\$ 1,588	\$ 2,496	\$ 2,710	\$ 1,374
 <u>PREPAID TAXES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 17,047	\$ 36,801	\$ 36,164	\$ 17,684
<u>Liabilities</u>				
Due to other funds	\$ 17,047	\$ 36,801	\$ 36,164	\$ 17,684
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 2,213,273	\$ 2,213,273	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 2,213,273	\$ 2,213,273	\$ -

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

*Statement 7
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 17,425	\$ 1,036,035	\$ 1,036,714	\$ 16,746
<u>Liabilities</u>				
Due to other governments	\$ 17,425	\$ 1,036,035	\$ 1,036,714	\$ 16,746
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 182,658	\$ 5,738,709	\$ 5,687,925	\$ 233,442
Due from other funds	17,047	17,684	17,047	17,684
Total Assets	\$ 199,705	\$ 5,756,393	\$ 5,704,972	\$ 251,126
<u>Liabilities</u>				
Due to other governments	\$ 199,705	\$ 5,756,393	\$ 5,704,972	\$ 251,126
 <u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 50	\$ 2,507,835	\$ 2,507,843	\$ 42
<u>Liabilities</u>				
Due to other governments	\$ 50	\$ 2,507,835	\$ 2,507,843	\$ 42

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

*Statement 7
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>WATERSHEDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 242,440	\$ 242,440	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 242,440	\$ 242,440	\$ -
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 421,507	\$ 14,080,254	\$ 14,022,593	\$ 479,168
Due from other funds	17,047	17,684	17,047	17,684
Total Assets	\$ 438,554	\$ 14,097,938	\$ 14,039,640	\$ 496,852
<u>Liabilities</u>				
Accounts payable	\$ 2,516	\$ 1,030,963	\$ 1,031,817	\$ 1,662
Due to other funds	17,047	36,801	36,164	17,684
Due to other governments	417,403	13,027,678	12,968,949	476,132
Residents' funds	1,588	2,496	2,710	1,374
Total Liabilities	\$ 438,554	\$ 14,097,938	\$ 14,039,640	\$ 496,852

OTHER SCHEDULES

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

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

	Cash	Special Assessments Receivable	
		Prior	Noncurrent
County Ditches			
1 - Rocksbury/North	\$ 513	\$ -	\$ -
1 - Rocksbury/Sanders	11,184	64	-
16	287	25	-
21	91	451	-
32	9,707	17	-
33	515	6	-
35	168	35	-
36	3,826	142	-
37	7,333	64	-
38	1,858	360	-
39	560	223	-
41	2,016	410	-
42	4,290	-	-
43	7,424	3	-
44	13,240	26	-
45	6,509	-	-
46	4,171	8	-
47	8,877	1	-
53	11,715	5	-
55	113	34	-
57	4,443	25	-
58	9,607	-	-
59	2,518	4	-
62	6,169	170	-
70	891	109	-
71	5,497	1	-
73	1,239	-	-
74	1,551	-	-
75	7,452	237	-
77	13,182	3	-
96	38,872	954	-
Joint County Ditches			
1	520	218	-
11	662	82	-
13	2,769	1,882	-
15	14,958	366	-
18	26,621	384	-
25 - Branch 3	18,185	3,480	-
30	1,995	275	-
30 - Branch A	1,649	-	-
31	14,149	3	-
60	165	-	-
Watershed Ditches			
14	151		-
25 - Branch 2	20	387	-
109 - Red Lake	248	213	51,208
122 - Challenger Project	835	857	-
Total	\$ 268,745	\$ 11,524	\$ 51,208

Schedule 12

Assets			
Due from Other Funds	Due from Other Governments	Due from Other Ditches	Total
\$ -	\$ -	\$ -	\$ 513
-	-	-	11,248
-	-	-	312
-	-	-	542
-	-	-	9,724
-	-	-	521
-	-	-	203
-	-	26,000	29,968
-	-	-	7,397
-	-	-	2,218
-	-	-	783
-	-	-	2,426
-	-	-	4,290
-	-	-	7,427
-	-	12,000	25,266
-	-	-	6,509
-	-	-	4,179
-	-	-	8,878
-	-	-	11,720
-	-	-	147
-	-	-	4,468
-	-	-	9,607
-	-	-	2,522
-	-	-	6,339
-	-	-	1,000
-	-	-	5,498
-	-	-	1,239
-	-	-	1,551
-	-	-	7,689
-	-	-	13,185
-	-	32,000	71,826
-	843	-	1,581
-	-	-	744
-	15	-	4,666
-	-	-	15,324
-	42	-	27,047
441	-	-	22,106
-	133	35,000	37,403
-	-	-	1,649
-	138	-	14,290
-	-	-	165
13	-	-	164
-	-	-	407
-	-	-	51,669
-	-	-	1,692
\$ 454	\$ 1,171	\$ 105,000	\$ 438,102

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

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

	Liabilities			
	Accounts Payable	Due to Other Funds	Deferred Revenue	Advances from Other Funds
County Ditches				
1 - Rocksbury/Sanders	\$ -	\$ -	\$ -	\$ -
6 - Rocksbury/North	-	-	49	-
16	-	-	19	-
21	-	-	344	-
32	-	-	13	-
33	-	-	5	-
35	-	-	27	-
36	-	-	108	-
37	-	-	49	-
38	-	-	274	-
39	-	-	170	-
41	-	-	313	-
42	-	-	-	-
43	-	-	2	-
44	-	-	20	-
45	-	-	-	-
46	-	-	6	-
47	-	-	1	-
53	-	-	4	-
55	-	-	26	-
57	-	-	19	-
58	-	-	-	-
59	-	-	3	-
62	348	55	130	-
70	-	-	83	-
71	-	-	1	-
73	-	-	-	-
74	-	-	-	-
75	-	-	181	-
77	-	-	2	-
96	348	97	727	-
Joint County Ditches				
1	-	-	166	-
11	-	-	62	-
13	-	-	1,434	104,500
15	-	-	279	-
18	-	-	293	-
25 - Branch 3	37,126	102	2,652	-
30	54	-	206	-
30 - Branch A	-	-	-	-
31	-	-	3	-
60	-	-	-	-
Watershed Ditches				
14	-	-	-	-
25 - Branch 2	-	-	295	-
109 - Red Lake	-	-	51,372	1,623
122 - Challenger Project	-	-	653	53,163
Total	\$ 37,876	\$ 254	\$ 59,991	\$ 159,286

Schedule 12
(Continued)

<u>Due to Other Ditches</u>	<u>Total</u>	<u>Fund Balances Undesignated</u>	<u>Total Liabilities and Fund Balances</u>
\$ -	\$ -	\$ 513	\$ 513
26,000	26,049	(14,801)	11,248
2,000	2,019	(1,707)	312
7,000	7,344	(6,802)	542
-	13	9,711	9,724
6,000	6,005	(5,484)	521
11,000	11,027	(10,824)	203
-	108	29,860	29,968
-	49	7,348	7,397
11,000	11,274	(9,056)	2,218
7,000	7,170	(6,387)	783
11,000	11,313	(8,887)	2,426
-	-	4,290	4,290
-	2	7,425	7,427
-	20	25,246	25,266
-	-	6,509	6,509
-	6	4,173	4,179
-	1	8,877	8,878
-	4	11,716	11,720
9,000	9,026	(8,879)	147
-	19	4,449	4,468
-	-	9,607	9,607
-	3	2,519	2,522
-	533	5,806	6,339
3,000	3,083	(2,083)	1,000
-	1	5,497	5,498
-	-	1,239	1,239
-	-	1,551	1,551
-	181	7,508	7,689
-	2	13,183	13,185
-	1,172	70,654	71,826
12,000	12,166	(10,585)	1,581
-	62	682	744
-	105,934	(101,268)	4,666
-	279	15,045	15,324
-	293	26,754	27,047
-	39,880	(17,774)	22,106
-	260	37,143	37,403
-	-	1,649	1,649
-	3	14,287	14,290
-	-	165	165
-	-	164	164
-	295	112	407
-	52,995	(1,326)	51,669
-	53,816	(52,124)	1,692
<u>\$ 105,000</u>	<u>\$ 362,407</u>	<u>\$ 75,695</u>	<u>\$ 438,102</u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 13

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

	Total Governmental Funds	Oakland Park Nursing Home Enterprise Fund	Total
Shared Revenue			
State			
County program aid	\$ 791,042	\$ -	\$ 791,042
Disparity reduction aid	96,572	-	96,572
Highway user tax	1,754,048	-	1,754,048
Market value credit	556,907	-	556,907
PERA rate reimbursement	16,384	-	16,384
Police aid	33,682	-	33,682
	\$ 3,248,635	\$ -	\$ 3,248,635
Reimbursement for Services			
State			
Minnesota Department of Human Services	\$ 1,008,115	\$ -	\$ 1,008,115
	\$ 23,097	\$ -	\$ 23,097
Payments			
Payment in lieu of taxes	\$ 23,097	\$ -	\$ 23,097
	\$ 1,235	\$ -	\$ 1,235
Grants			
Local			
Northwest Community Action Council	\$ 1,235	\$ -	\$ 1,235
State			
Minnesota Department/Board of			
Corrections	\$ 89,574	\$ -	\$ 89,574
Environmental Assistance	24,539	-	24,539
Human Services	936,117	8,893	945,010
Natural Resources	34,907	-	34,907
Peace Officers	3,525	-	3,525
Pollution Control	24,540	-	24,540
Public Safety	107,338	-	107,338
Soil and Water Resources	51,163	-	51,163
Veterans Affairs	2,800	-	2,800
	\$ 1,274,503	\$ 8,893	\$ 1,283,396
Federal			
Department of			
Agriculture	\$ 10,000	\$ -	\$ 10,000
Justice	63,391	-	63,391
Transportation	773,375	-	773,375
Health and Human Services	421,275	-	421,275
Homeland Security	111,888	-	111,888
	\$ 1,379,929	\$ -	\$ 1,379,929
Total State and Federal Grants	\$ 2,654,432	\$ 8,893	\$ 2,663,325
Total Intergovernmental Revenue	\$ 6,935,514	\$ 8,893	\$ 6,944,407

MANAGEMENT AND COMPLIANCE SECTION

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 14

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the financial statements of Pennington County.
- B. No reportable conditions of internal control were disclosed by the audit of financial statements of Pennington County.
- C. No instances of noncompliance material to the financial statements of Pennington County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program 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 program for Pennington County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program was Highway Planning and Construction, CFDA #20.205.
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Pennington County was determined to be a high-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 **Segregation of Duties**

Due to the limited number of personnel within several County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Pennington 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 Pennington County's management be aware of the absence of segregation of duties within the accounting and data processing functions and, if possible, implement oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

County's Response:

Management is aware of this and will provide oversight where needed.

PREVIOUSLY REPORTED ITEM RESOLVED

96-4 **Capital Asset Records**

The County did not maintain a complete record of capital assets. The centralized computer listing from the County Auditor's Office included buildings, office furniture, and equipment, but not land. In addition, a physical inventory to identify items no longer in existence had not been performed in all departments.

Resolution

The County has established complete detailed capital asset records for all types of assets and now performs periodic physical inventories to test the records.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-7 **Ditch Special Revenue Fund Balance Deficits**

Fifteen of the 45 active individual ditch systems had deficit unreserved, undesignated fund balances at December 31, 2005, totaling \$257,987, the largest being \$101,268. Minnesota Statute, § 103E.735, subd. 1, provides that a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

We recommend that the County eliminate the individual ditch system fund balance deficits by levying assessments pursuant to Minnesota Statute, § 103E.735, which permits the accumulation of a surplus balance for future repairs and maintenance costs of a ditch system.

County's Response

The County Board levies each year in an attempt to provide enough funds to cover estimated work planned for in the coming year. Sometimes more work is required than the County Board feels the benefited owners can afford to pay in one year. The Board then spreads the levy over a number of years.

PREVIOUSLY REPORTED ITEMS RESOLVED

04-1 Road and Bridge Special Revenue Fund Balance Deficit

The Road and Bridge Special Revenue fund had a deficit unreserved, undesignated fund balance deficit of \$114,531 at December 31, 2004.

Resolution

The County Board raised the levy for the Road and Bridge fund for taxes payable in 2005 to adequately fund these services.

04-2 Ditch Special Revenue Fund Balance Deficit

The Ditch Special Revenue fund had a deficit unreserved, undesignated fund balance deficit of \$698 at December 31, 2004.

Resolution

The County Board increased the levy for some of the ditch accounts in an attempt to build a reserve.



GOVERNMENTAL AUDIT SERVICES

Colleen Hoffman, Manager
Gordon Dale, CPA
Audrey Swenson, CPA

502 Davis Avenue North
Thief River Falls, MN 56701
Phone: 218-681-4078
Fax: 218-681-4079
choffman@mncable.net

**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
Pennington County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pennington County as of and for the year ended December 31, 2005, including the Oakland Park Nursing Home Enterprise Fund as of and for the year ended September 30, 2005, and have issued our report dated July 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pennington 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 assurance on the internal control over financial reporting. However, we noted a certain 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 96-1.

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 misstatements 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 that the reportable condition indicated above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pennington 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 Minnesota Statute, § 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 applicable categories of compliance to be tested: depositories of public funds and public investments, conflicts of interest, public indebtedness, contracting – bid laws, claims and disbursements, and miscellaneous county provisions. Our study included all of the listed categories. The results of our tests indicate that for the items tested, Pennington County complied with the material terms and conditions of applicable legal provisions.

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



Hoffman, Dale, & Swenson, PLLC

July 25, 2006



Colleen Hoffman, Manager
Gordon Dale, CPA
Audrey Swenson, CPA

GOVERNMENTAL AUDIT SERVICES

502 Davis Avenue North
Thief River Falls, MN 56701
Phone: 218-681-4078
Fax: 218-681-4079
choffman@mncable.net

**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
Pennington County

Compliance

We have audited the compliance of Pennington County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2005. Pennington County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pennington 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, Pennington County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

Internal Control Over Compliance

The management of Pennington 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 Pennington County as of and for the year ended December 31, 2005, and have issued our report thereon dated July 25, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Pennington 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the 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.

Hoffman, Dale, & Swenson

Hoffman, Dale, & Swenson, PLLC

July 25, 2006

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 15

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

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services Matching Grants for Food Stamp Program	10.561	\$ <u>10,000</u>
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Juvenile Accountability Incentive Block Grant	16.523	\$ 5,246
Crime Victim Assistance	16.575	<u>58,145</u>
Total U.S. Department of Justice		\$ <u>63,391</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ <u>773,375</u>
U.S. Department of Health and Human Services		
Passed Through Northwest Regional Development Commission Title IIIB Special Program for the Aging	93.044	\$ 9,750
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	5,192
Temporary Assistance for Needy Families	93.558	79,020
Child Care Development Block Grant	93.575	111,596
Child Care Mandatory and Matching Funds	93.596	55,881
Foster Care Title IV-E	93.658	8,633
Social Services Block Grant Title XX	93.667	139,149
Chafee Foster Care Independent Living	93.674	5,820
State Children's Insurance Program	93.767	74
Block Grants for Community Mental Health Services	93.958	<u>6,160</u>
Total U.S. Department of Health and Human Services		\$ <u>421,275</u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

***Schedule 15
(Continued)***

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

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Domestic Preparedness Equipment	97.004	\$ <u>65,707</u>
Homeland Security Grant	97.067	\$ 9,109
Passed Through Norman County Homeland Security Grant	97.067	<u>37,072</u>
Total Homeland Security Grant		<u>\$ 46,181</u>
Total U.S. Department of Homeland Security		<u>\$ 111,888</u>
Total Federal Awards		<u>\$ 1,379,929</u>

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 Pennington County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the basis of accounting used by the individual funds of the County. Governmental funds use the modified accrual basis of accounting.
3. There were no pass-through grants to subrecipients or other agencies in 2005.