

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

ITASCA COUNTY
GRAND RAPIDS, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

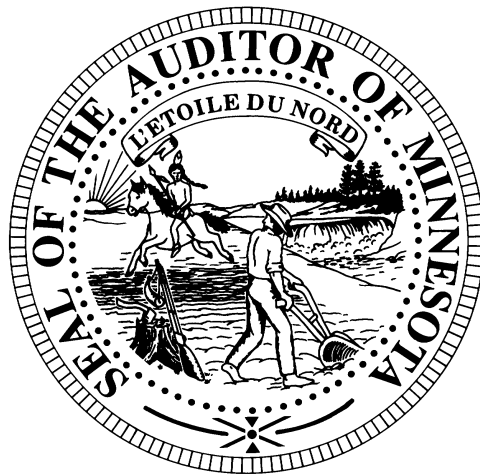
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

For the Year Ended December 31, 2005



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

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

TABLE OF CONTENTS

| | Reference | Page |
|--|------------|------|
| Introductory Section | | |
| Organization | | 1 |
| Financial Section | | |
| Independent Auditor's Report | | 2 |
| Management's Discussion and Analysis | | 4 |
| Basic Financial Statements | | |
| Government-Wide Financial Statements | | |
| Statement of Net Assets | Exhibit 1 | 12 |
| Statement of Activities | Exhibit 2 | 13 |
| Fund Financial Statements | | |
| Governmental Funds | | |
| Balance Sheet | Exhibit 3 | 15 |
| Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities | Exhibit 4 | 17 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances | Exhibit 5 | 18 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities | Exhibit 6 | 20 |
| Proprietary Funds | | |
| Statement of Net Assets | Exhibit 7 | 21 |
| Statement of Revenues, Expenses, and Changes in Fund Net Assets | Exhibit 8 | 23 |
| Statement of Cash Flows | Exhibit 9 | 25 |
| Fiduciary Funds | | |
| Statement of Fiduciary Net Assets | Exhibit 10 | 27 |
| Statement of Changes in Fiduciary Net Assets | Exhibit 11 | 28 |
| Notes to the Financial Statements | | 29 |
| Required Supplementary Information | | |
| Budgetary Comparison Schedules | | |
| General Fund | Schedule 1 | 70 |
| Road and Bridge Special Revenue Fund | Schedule 2 | 72 |
| Health and Human Services Special Revenue Fund | Schedule 3 | 73 |
| Notes to the Required Supplementary Information | | 74 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

TABLE OF CONTENTS

| | Reference | Page |
|--|-------------|------|
| Financial Section (Continued) | | |
| Supplementary Information | | |
| Nonmajor Governmental Funds | | |
| Combining Balance Sheet | Statement 1 | 75 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balance | Statement 2 | 76 |
| Combining Balance Sheet - Special Revenue Funds | Statement 3 | 77 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Special Revenue Funds | Statement 4 | 78 |
| Budgetary Comparison Schedules | | |
| Forest Resources Special Revenue Fund | Schedule 4 | 79 |
| Solid Waste Management Special Revenue Fund | Schedule 5 | 80 |
| Debt Service Fund | Schedule 6 | 81 |
| Fiduciary Funds | | |
| Agency Funds | | 82 |
| Combining Statement of Changes in Assets and Liabilities | Statement 5 | 83 |
| Other Schedule | | |
| Schedule of Intergovernmental Revenue | Schedule 7 | 84 |
| Management and Compliance Section | | |
| Schedule of Findings and Questioned Costs | Schedule 8 | 85 |
| Other Required Reports | | |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | | 98 |
| Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 | | 100 |
| Schedule of Expenditures of Federal Awards | Schedule 9 | 103 |

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2005

| | | | Term Expires |
|--|--------------------|------------|------------------|
| Elected | | | |
| Commissioner | Russell Klegstad* | District 1 | January 2007 |
| Commissioner | Catherine McLynn | District 2 | January 2009 |
| Commissioner | John Dimich | District 3 | January 2007 |
| Commissioner | Russell A. Eichorn | District 4 | January 2009 |
| Commissioner | Mark Mandich | District 5 | January 2007 |
| Attorney | John J. Muhar | | January 2007 |
| Auditor/Treasurer | Robert Zuehlke | | Retired May 2006 |
| County Recorder | Jean Bengston | | January 2007 |
| County Sheriff | Pat Medure | | January 2007 |
| Appointed | | | |
| Assessor | Tom Gilmore | | Indefinite |
| Coroner | Dr. Michael Baich | | Indefinite |
| Coordinator | Robert Olson | | Indefinite |
| Emergency Management Director | Pat Medure | | Indefinite |
| Highway Engineer | Dave Christy | | Indefinite |
| Surveyor | Tim Wotzka | | Indefinite |
| Veterans Service Officer | Marvin Ott | | Indefinite |
| Health and Human Services Board | | | |
| Chair | Catherine McLynn | | January 2009 |
| Vice Chair | Mark Mandich | | January 2007 |
| Member | John Dimich | | January 2007 |
| Member | Russell Klegstad | | January 2007 |
| Member | Russell A. Eichorn | | January 2009 |
| Director | Lester Kachinske | | Indefinite |

*Chair 2005

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Itasca 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 Itasca County, Minnesota, as of and for the year ended December 31, 2005, including the Nursing Home Enterprise Fund as of and for the year ended September 30, 2005, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Itasca County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Itasca Medical Care Enterprise Fund, which statements represent the Medical Care Enterprise Fund, a major fund, and 34 percent of the assets and 70 percent of the program revenues of the business-type activities. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Itasca Medical Care Enterprise Fund, is based solely on the report of other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Itasca County as of December 31, 2005, including the

Nursing Home Enterprise Fund at September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 14, 2006, on our consideration of Itasca County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: September 14, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

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

The Itasca County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2005. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$157,481,877, of which \$109,848,710 is invested in capital assets, net of related debt, and \$12,945,228 is restricted to specific purposes.
- Business-type activities have total net assets of \$9,617,651. Invested in capital assets, net of related debt, represents \$4,402,015 of the total. Of the total business-type net assets, \$13,269 is restricted for specific uses.
- Itasca County's net assets increased by \$13,423,091 for the year ended December 31, 2005. Of the increase, \$12,789,493 was in the governmental activities' net assets, and \$633,598 represented the increase in business-type activities' net assets.
- The net cost of governmental activities was \$20,072,155 for the current fiscal year. The net cost was funded by general revenues and contributions totaling \$32,861,648.
- Governmental funds' fund balances increased by \$1,963,193.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Itasca County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) and certain budgetary comparison schedules are required to accompany the basic financial statements and, therefore, are included as required supplementary information.

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements report the County's

operations in more detail than the government-wide statements by providing information about the County's most significant funds. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

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

The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps the reader determine whether the County's financial condition has improved or declined as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's net assets and changes in them. You can think of the County's net assets--the difference between assets and liabilities--as one way to measure the County's financial health or financial position. Over time, increases or decreases in the County's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the County's property tax base and the condition of County roads, to assess the overall health of the County.

In the Statement of Net Assets and the Statement of Activities, we divide Itasca 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 and federal grants finance most of these activities.
- Business-type activities--The County charges a fee to customers to help it cover all or most of the cost of services it provides. The County's Nursing Home, Itasca Medical Care, and Itasca Resource Center activities are reported here.

The government-wide financial statements can be found in Exhibits 1 and 2.

Fund Financial Statements

The fund financial statements provide detailed information about the significant funds, not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the County Board establishes some funds to help it control and manage

money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's two kinds of funds--governmental and proprietary--use different accounting methods.

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

The basic financial statements for governmental funds can be found in Exhibits 3 through 6.

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

Proprietary fund financial statements may be found in Exhibits 7 through 9.

Reporting the County's Fiduciary Responsibilities

The County is the trustee, or fiduciary, over assets, which can be used only for the trust beneficiaries, based on the trust arrangement. All of the County's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets.

We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The fiduciary funds financial statements are Exhibits 10 and 11.

THE COUNTY AS A WHOLE

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

Table 1
Net Assets
(In Millions)

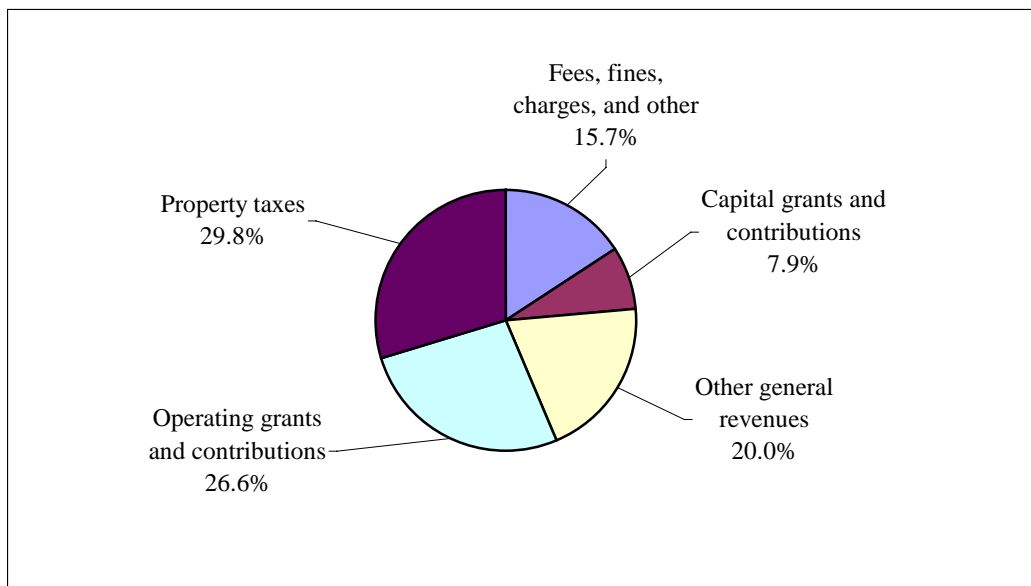
| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|--|----------------------------|--------------------|-----------------------------|----------------|--------------------------------|-----------------|
| | 2005 | 2004 (Restated) | 2005 | 2004 | 2005 | 2004 |
| Current and other assets | \$ 62.9 | \$ 56.2 | \$ 9.8 | \$ 10.9 | \$ 72.7 | \$ 67.1 |
| Capital assets | 118.1 | 110.3 | 10.3 | 10.2 | 128.4 | 120.5 |
| Total Assets | \$ 181.0 | \$ 166.5 | \$ 20.1 | \$ 21.1 | \$ 201.1 | \$ 187.6 |
| Long-term debt outstanding | \$ 13.1 | \$ 14.3 | \$ 6.1 | \$ 7.8 | \$ 19.2 | \$ 22.1 |
| Other liabilities | 10.4 | 7.5 | 4.4 | 4.3 | 14.8 | 11.8 |
| Total Liabilities | \$ 23.5 | \$ 21.8 | \$ 10.5 | \$ 12.1 | \$ 34.0 | \$ 33.9 |
| Net Assets | | | | | | |
| Invested in capital assets, net of debt | \$ 109.9 | \$ 100.9 | \$ 4.4 | \$ 4.5 | \$ 114.3 | \$ 105.4 |
| Restricted | 12.9 | 16.5 | - | 0.4 | 12.9 | 16.9 |
| Unrestricted | 34.7 | 27.3 | 5.2 | 4.1 | 39.9 | 31.4 |
| Total Net Assets | \$ 157.5 | \$ 144.7 | \$ 9.6 | \$ 9.0 | \$ 167.1 | \$ 153.7 |

Table 2
Changes in Net Assets
(In Millions)

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---------------------------------------|----------------------------|--------------------|-----------------------------|----------------|--------------------------------|----------------|
| | 2005 | 2004 (Restated) | 2005 | 2004 | 2005 | 2004 |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Fees, fines, charges, and other | \$ 10.4 | \$ 9.1 | \$ 33.1 | \$ 28.0 | \$ 43.5 | \$ 37.1 |
| Operating grants and contributions | 17.5 | 17.1 | - | - | 17.5 | 17.1 |
| Capital grants and contributions | 5.2 | 5.0 | - | - | 5.2 | 5.0 |
| General revenues | | | | | | |
| Property taxes | 19.7 | 19.1 | - | - | 19.7 | 19.1 |
| Other taxes | 1.0 | 1.0 | - | - | 1.0 | 1.0 |
| Other general revenues | 9.3 | 8.4 | 0.2 | 0.2 | 9.5 | 8.6 |
| Contributions to permanent fund | 2.8 | 2.5 | - | - | 2.8 | 2.5 |
| Total Revenues | \$ 65.9 | \$ 62.2 | \$ 33.3 | \$ 28.2 | \$ 99.2 | \$ 90.4 |

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|-----------------------------------|-------------------------|-----------------|--------------------------|----------------|--------------------------|----------------|
| | 2005 | 2004 (Restated) | 2005 | 2004 | 2005 | 2004 |
| Expenses | | | | | | |
| General government | \$ 8.4 | \$ 8.1 | \$ - | \$ - | \$ 8.4 | \$ 8.1 |
| Public safety | 8.4 | 7.8 | - | - | 8.4 | 7.8 |
| Culture and recreation | 0.8 | 0.8 | - | - | 0.8 | 0.8 |
| Highways and streets | 14.0 | 13.3 | - | - | 14.0 | 13.3 |
| Human services | 15.0 | 15.2 | - | - | 15.0 | 15.2 |
| Health | 1.6 | 1.5 | - | - | 1.6 | 1.5 |
| Sanitation | 1.6 | 1.5 | - | - | 1.6 | 1.5 |
| Conservation of natural resources | 2.8 | 2.5 | - | - | 2.8 | 2.5 |
| Economic development | 0.2 | 0.1 | - | - | 0.2 | 0.1 |
| Interest | 0.3 | 0.4 | - | - | 0.3 | 0.4 |
| Nursing Home | - | - | 8.9 | 6.9 | 8.9 | 6.9 |
| Itasca Resource Center | - | - | 0.5 | 0.5 | 0.5 | 0.5 |
| Itasca Medical Care | - | - | 23.3 | 20.5 | 23.3 | 20.5 |
| Total Expenses | \$ 53.1 | \$ 51.2 | \$ 32.7 | \$ 27.9 | \$ 85.8 | \$ 79.1 |
| Increase (Decrease) in Net Assets | \$ 12.8 | \$ 11.0 | \$ 0.6 | \$ 0.3 | \$ 13.4 | \$ 11.3 |
| Net Assets - January 1, restated | 144.7 | 133.7 | 9.0 | 8.7 | 153.7 | 142.4 |
| Net Assets - December 31 | \$ 157.5 | \$ 144.7 | \$ 9.6 | \$ 9.0 | \$ 167.1 | \$ 153.7 |

Total County Revenues by Source



Governmental Activities

The cost of all governmental activities this year was \$53.1 million. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$20.1 million because some of the cost was paid by those who directly benefited from the programs (\$10.4 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$22.7 million).

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

Table 3
Governmental Activities
(In Millions)

| | Total Cost of Services | | Net Cost of Services | |
|--------------------------------------|---------------------------|--------------------|-------------------------|--------------------|
| | 2005 | 2004 (Restated) | 2005 | 2004 (Restated) |
| Human services | \$ 15.0 | \$ 15.2 | \$ 6.6 | \$ 5.6 |
| Highways and streets | 14.0 | 13.3 | 1.7 | 2.7 |
| General government | 8.4 | 8.1 | 6.1 | 6.1 |
| Public safety | 8.4 | 7.8 | 6.6 | 6.0 |
| Conservation of natural resources | 2.8 | 2.5 | (3.2) | (2.2) |
| All others | 4.5 | 4.3 | 2.3 | 1.7 |
| Totals | <u>\$ 53.1</u> | <u>\$ 51.2</u> | <u>\$ 20.1</u> | <u>\$ 19.9</u> |

Business-Type Activities

Revenues of the County's business-type activities increased by 18.4 percent, and expenses increased by 16.7 percent. About 45 percent of the increase in revenues and expenses is an increase in Itasca Nursing Home revenues and expenses due to the opening of an expansion in 2004. The other 55 percent of increase in revenues and expenses are increased Itasca Medical Care revenues and expenses.

The County's Funds

As the County completed the year, its governmental funds reported a combined fund balance of \$43 million, which is above last year's total of \$41.0 million. Included in this year's total fund balance is a surplus of \$10.9 million in the County's General Fund. The governmental funds fund balances increased by 4.8 percent over last year.

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) for the County's General Fund budget were \$1.1 million above the final budget amounts. The most significant positive variance (\$0.1 million) occurred in County administration. The most significant negative variances were in the public safety category (\$0.5 million) and the culture and recreation category (\$0.2 million) because certain grant expenditures were unbudgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the County had \$128.3 million invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of \$7.8 million, or 6.5 percent, over last year. For more information on capital assets, see Note 3.A.3. to the financial statements.

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

| | Governmental Activities | | Business-Type Activities | | Totals | |
|-------------------------------------|----------------------------|--------------------|-----------------------------|----------------|-----------------|-----------------|
| | 2005 | 2004 (Restated) | 2005 | 2004 | 2005 | 2004 |
| Land | \$ 1.1 | \$ 1.1 | \$ 0.3 | \$ 0.3 | \$ 1.4 | \$ 1.4 |
| Construction in progress | 0.1 | 0.5 | - | - | 0.1 | 0.5 |
| Buildings and improvements | 17.5 | 17.1 | 8.8 | 9.2 | 26.3 | 26.3 |
| Machinery, furniture, and equipment | 6.3 | 6.4 | 1.1 | 0.7 | 7.4 | 7.1 |
| Infrastructure | 93.1 | 85.2 | - | - | 93.1 | 85.2 |
| Totals | <u>\$ 118.1</u> | <u>\$ 110.3</u> | <u>\$ 10.2</u> | <u>\$ 10.2</u> | <u>\$ 128.3</u> | <u>\$ 120.5</u> |

Debt

At year-end, the County had \$14.0 million in bonds and notes outstanding, versus \$15.3 million last year--a decrease of over eight percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End
(In Millions)

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---|----------------------------|---------------|-----------------------------|---------------|----------------|----------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| General obligation bonds and notes (backed by the County) | \$ 8.3 | \$ 9.4 | \$ 1.3 | \$ 1.5 | \$ 9.6 | \$ 10.9 |
| Revenue bonds | - | - | 4.4 | 4.4 | 4.4 | 4.4 |
| Totals | <u>\$ 8.3</u> | <u>\$ 9.4</u> | <u>\$ 5.7</u> | <u>\$ 5.9</u> | <u>\$ 14.0</u> | <u>\$ 15.3</u> |

The state limits the amount of net debt that the County can issue to two percent of the market value of all taxable property in the County. The County's outstanding net debt is significantly below this \$75.4 million state-imposed limit.

Other obligations include compensated absences, provider settlements, and claims and judgments. More detailed information about the County's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for the business-type activities.

- County expenditures for 2006 are budgeted to increase 1.5 percent over 2005.
- Property taxes levied have increased 4.6 percent for 2006.

CONTACTING ITASCA COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Auditor/Treasurer, Jay Kolar, or the County's Chief Accountant, Crissy Eggert, Itasca County Courthouse, 123 N.E. 4th Street, Grand Rapids, Minnesota 55744.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 1

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

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|-----------------------|
| <u>Assets</u> | | | |
| Cash and pooled investments | \$ 48,234,450 | \$ 6,066,342 | \$ 54,300,792 |
| Receivables - net | 13,991,700 | 2,923,392 | 16,915,092 |
| Internal balances | (182,614) | 182,614 | - |
| Inventories | 842,875 | 31,268 | 874,143 |
| Prepaid items | 53,439 | 125,892 | 179,331 |
| Restricted assets | | | |
| Cash and pooled investments | - | 340,502 | 340,502 |
| Resident trust funds | - | 23,948 | 23,948 |
| Deferred charges | 805 | 133,332 | 134,137 |
| Capital assets | | | |
| Nondepreciable capital assets | 1,271,206 | 279,296 | 1,550,502 |
| Depreciable capital assets - net of accumulated depreciation | 116,837,504 | 9,966,378 | 126,803,882 |
| Total Assets | \$ 181,049,365 | \$ 20,072,964 | \$ 201,122,329 |
| <u>Liabilities</u> | | | |
| Accounts payable and other current liabilities | \$ 9,097,364 | \$ 3,760,528 | \$ 12,857,892 |
| Accrued interest payable | 137,187 | 52,069 | 189,256 |
| Payable from restricted assets | | | |
| Due to residents | - | 23,948 | 23,948 |
| Long-term liabilities | | | |
| Due within one year | 1,171,881 | 544,810 | 1,716,691 |
| Due in more than one year | 13,161,056 | 6,073,958 | 19,235,014 |
| Total Liabilities | \$ 23,567,488 | \$ 10,455,313 | \$ 34,022,801 |
| <u>Net Assets</u> | | | |
| Invested in capital assets - net of related debt | \$ 109,848,710 | \$ 4,402,015 | \$ 114,250,725 |
| Restricted for | | | |
| General government | 124,440 | - | 124,440 |
| Public safety | 316,318 | - | 316,318 |
| Highways and streets | 1,892,313 | - | 1,892,313 |
| Debt service | 1,813,707 | - | 1,813,707 |
| Conservation of natural resources | 8,798,450 | - | 8,798,450 |
| Donor projects | - | 13,269 | 13,269 |
| Unrestricted | 34,687,939 | 5,202,367 | 39,890,306 |
| Total Net Assets | \$ 157,481,877 | \$ 9,617,651 | \$ 167,099,528 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

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

| | Expenses | Fees, Charges, Fines, and Other |
|---------------------------------------|----------------------|--|
| Functions/Programs | | |
| Governmental activities | | |
| General government | \$ 8,431,445 | \$ 1,375,315 |
| Public safety | 8,396,111 | 620,077 |
| Highways and streets | 14,012,135 | 1,392,283 |
| Sanitation | 1,642,842 | 489,667 |
| Human services | 15,004,061 | 594,259 |
| Health | 1,577,884 | 223,257 |
| Culture and recreation | 769,683 | 14,825 |
| Conservation of natural resources | 2,840,665 | 5,668,046 |
| Economic development | 141,344 | - |
| Interest | 341,968 | - |
| Total governmental activities | \$ 53,158,138 | \$ 10,377,729 |
| Business-type activities | | |
| Nursing Home | \$ 8,913,864 | \$ 9,452,396 |
| Itasca Resource Center | 482,171 | 413,162 |
| Itasca Medical Care | 23,291,582 | 23,291,582 |
| Total business-type activities | \$ 32,687,617 | \$ 33,157,140 |
| Total | \$ 85,845,755 | \$ 43,534,869 |

General Revenues

Property taxes
Taxes - other
Mortgage registry and deed tax
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Gifts and contributions
Investment income
Miscellaneous
Transfers

Contributions to permanent fund

Total general revenues and contributions

Change in net assets

Net Assets - Beginning (Restated)

Net Assets - Ending

EXHIBIT 2

| Program Revenues | | Net (Expense) Revenue and Changes in Net Assets | | |
|---|---|--|---------------------------------|------------------------|
| Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| \$ 955,969 | \$ - | \$ (6,100,161) | \$ - | \$ (6,100,161) |
| 1,153,819 | - | (6,622,215) | - | (6,622,215) |
| 6,631,579 | 4,243,828 | (1,744,445) | - | (1,744,445) |
| 99,749 | 930,458 | (122,968) | - | (122,968) |
| 7,784,234 | - | (6,625,568) | - | (6,625,568) |
| 554,916 | - | (799,711) | - | (799,711) |
| - | - | (754,858) | - | (754,858) |
| 353,702 | - | 3,181,083 | - | 3,181,083 |
| - | - | (141,344) | - | (141,344) |
| - | - | (341,968) | - | (341,968) |
| \$ 17,533,968 | \$ 5,174,286 | \$ (20,072,155) | \$ - | \$ (20,072,155) |
| \$ - | \$ - | \$ - | \$ 538,532 | \$ 538,532 |
| - | - | - | (69,009) | (69,009) |
| - | - | - | - | - |
| \$ - | \$ - | \$ - | \$ 469,523 | \$ 469,523 |
| \$ 17,533,968 | \$ 5,174,286 | \$ (20,072,155) | \$ 469,523 | \$ (19,602,632) |
| | | \$ 19,677,891 | \$ - | \$ 19,677,891 |
| | | 984,466 | - | 984,466 |
| | | 46,323 | - | 46,323 |
| | | 502,636 | - | 502,636 |
| | | 6,456,974 | 18,192 | 6,475,166 |
| | | 5,777 | 17,975 | 23,752 |
| | | 1,592,692 | 202,908 | 1,795,600 |
| | | 671,845 | - | 671,845 |
| | | 75,000 | (75,000) | - |
| | | 2,848,044 | - | 2,848,044 |
| | | \$ 32,861,648 | \$ 164,075 | \$ 33,025,723 |
| | | \$ 12,789,493 | \$ 633,598 | \$ 13,423,091 |
| | | 144,692,384 | 8,984,053 | 153,676,437 |
| | | \$ 157,481,877 | \$ 9,617,651 | \$ 167,099,528 |

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

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

| | General | Road and Bridge |
|---|----------------------|----------------------------|
| <u>Assets</u> | | |
| Cash and pooled investments | \$ 9,270,829 | \$ 5,198,981 |
| Petty cash and change funds | 9,670 | 50 |
| Undistributed cash in agency funds | 453,462 | 307,358 |
| Taxes receivable - prior | 218,316 | 169,003 |
| Special assessments receivable - prior | - | - |
| Accounts receivable | 23,691 | 81,454 |
| Accrued interest receivable | 453,306 | - |
| Due from other funds | 1,203,898 | 472,398 |
| Due from other governments | 399,251 | 3,243,300 |
| Loans receivable | - | - |
| Inventories | 3,931 | 838,944 |
| Prepaid items | 53,439 | - |
| | \$ 12,089,793 | \$ 10,311,488 |
| <u>Liabilities and Fund Balances</u> | | |
| Liabilities | | |
| Accounts payable | \$ 284,563 | \$ 545,058 |
| Severance payable | - | - |
| Salaries payable | 593,761 | 194,405 |
| Escheat property payable | 16,631 | - |
| Contracts payable | - | 270,307 |
| Due to other funds | 7,334 | - |
| Due to other governments | 22,147 | 114,221 |
| Deferred revenue - unavailable | 242,526 | 2,855,908 |
| | \$ 1,166,962 | \$ 3,979,899 |
| Fund Balances | | |
| Reserved for | | |
| Inventories | \$ 3,931 | \$ 838,944 |
| Prepaid items | 53,439 | - |
| Recorder's equipment purchases | - | - |
| County property recorder's fee | - | - |
| Enhanced 911 | 288,651 | - |
| Permit to carry gun fees | 27,667 | - |
| Environmental improvements | - | - |
| Title III federal forest funds | 48,325 | - |
| Unreserved, undesignated | 10,500,818 | 5,492,645 |
| Unreserved, reported in nonmajor | | |
| Special revenue funds | - | - |
| Debt service fund | - | - |
| Capital projects fund | - | - |
| | \$ 10,922,831 | \$ 6,331,589 |
| | \$ 12,089,793 | \$ 10,311,488 |

EXHIBIT 3

| Health and Human Services | Forfeited Tax | Environmental Permanent | Other Governmental Funds | Total Governmental Funds |
|--------------------------------------|--------------------------|------------------------------------|---|---|
| \$ 2,496,428 | \$ 5,394,028 | \$ 8,750,125 | \$ 12,450,758 | \$ 43,561,149 |
| 350 | - | - | 325 | 10,395 |
| 350,019 | - | - | 147,335 | 1,258,174 |
| 155,479 | - | - | 60,011 | 602,809 |
| - | - | - | 128,965 | 128,965 |
| 10,512 | 7,453,051 | - | 71,926 | 7,640,634 |
| - | - | - | - | 453,306 |
| 4,887 | - | - | 2,914,221 | 4,595,404 |
| 1,369,164 | - | - | 291 | 5,012,006 |
| - | - | - | 117,000 | 117,000 |
| - | - | - | - | 842,875 |
| - | - | - | - | 53,439 |
| \$ 4,386,839 | \$ 12,847,079 | \$ 8,750,125 | \$ 15,890,832 | \$ 64,276,156 |
| \$ 867,924 | \$ 20,784 | \$ - | \$ 266,493 | \$ 1,984,822 |
| - | - | - | 72,804 | 72,804 |
| 204,341 | - | - | 38,995 | 1,031,502 |
| - | - | - | - | 16,631 |
| - | - | - | - | 270,307 |
| 317,819 | 3,982,900 | - | 469,965 | 4,778,018 |
| 1,411,747 | 1,416,004 | - | - | 2,964,119 |
| 221,003 | 6,591,768 | - | 305,976 | 10,217,181 |
| \$ 3,022,834 | \$ 12,011,456 | \$ - | \$ 1,154,233 | \$ 21,335,384 |
| \$ - | \$ - | \$ - | \$ - | \$ 842,875 |
| - | - | - | - | 53,439 |
| - | - | - | 51,444 | 51,444 |
| - | - | - | 72,996 | 72,996 |
| - | - | - | - | 288,651 |
| - | - | - | - | 27,667 |
| - | - | 8,750,125 | - | 8,750,125 |
| - | - | - | - | 48,325 |
| 1,364,005 | 835,623 | - | - | 18,193,091 |
| - | - | - | 7,382,015 | 7,382,015 |
| - | - | - | 1,813,707 | 1,813,707 |
| - | - | - | 5,416,437 | 5,416,437 |
| \$ 1,364,005 | \$ 835,623 | \$ 8,750,125 | \$ 14,736,599 | \$ 42,940,772 |
| \$ 4,386,839 | \$ 12,847,079 | \$ 8,750,125 | \$ 15,890,832 | \$ 64,276,156 |

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 4

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

| | | |
|--|----------------|-----------------------|
| Fund balances - total governmental funds (Exhibit 3) | \$ | 42,940,772 |
| <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> | | 118,108,710 |
| <p>Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. See Note 2.B. for details.</p> | | 7,510,257 |
| <p>Internal service funds are used by management to charge the costs of self-insurance to individual funds. Internal service fund assets and liabilities are included in governmental activities in the statement of net assets.</p> | | |
| <p style="padding-left: 40px;">Total internal service fund net assets</p> | | 2,991,154 |
| <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> | | |
| <p style="padding-left: 40px;">General obligation bonds</p> | \$ (8,260,000) | |
| <p style="padding-left: 40px;">Compensated absences</p> | (5,672,634) | |
| <p style="padding-left: 40px;">Accrued interest payable</p> | (137,187) | |
| <p style="padding-left: 40px;">Deferred debt issuance charges</p> | 805 | |
| | (14,069,016) | (14,069,016) |
| Net assets of governmental activities (Exhibit 1) | | \$ 157,481,877 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

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

| | General | Road and Bridge |
|--|-----------------------|----------------------------|
| Revenues | | |
| Taxes | \$ 8,029,937 | \$ 5,563,012 |
| Special assessments | - | - |
| Licenses and permits | 61,853 | - |
| Intergovernmental | 5,947,104 | 12,441,312 |
| Charges for services | 1,164,175 | 1,133,068 |
| Fines and forfeits | 59,771 | - |
| Gifts and contributions | 5,777 | - |
| Investment earnings | 1,237,911 | - |
| Miscellaneous | 736,086 | 387,125 |
| Total Revenues | \$ 17,242,614 | \$ 19,524,517 |
| Expenditures | | |
| Current | | |
| General government | \$ 6,391,649 | \$ - |
| Public safety | 7,558,905 | - |
| Highways and streets | - | 20,646,238 |
| Sanitation | - | - |
| Human services | - | - |
| Health | 165,665 | - |
| Culture and recreation | 327,423 | - |
| Conservation of natural resources | 413,967 | - |
| Economic development | 141,344 | - |
| Debt service | | |
| Principal | - | - |
| Interest | - | - |
| Administrative (fiscal) charges | - | - |
| Total Expenditures | \$ 14,998,953 | \$ 20,646,238 |
| Excess of Revenues Over (Under) Expenditures | \$ 2,243,661 | \$ (1,121,721) |
| Other Financing Sources (Uses) | | |
| Transfers in | \$ 1,068,693 | \$ 133,549 |
| Transfers out | (2,612,681) | (50,000) |
| Total Other Financing Sources (Uses) | \$ (1,543,988) | \$ 83,549 |
| Net Change in Fund Balance | \$ 699,673 | \$ (1,038,172) |
| Fund Balance - January 1 | 10,225,844 | 7,301,293 |
| Increase (decrease) in reserved for inventories | (2,686) | 68,468 |
| Fund Balance - December 31 | \$ 10,922,831 | \$ 6,331,589 |

EXHIBIT 5

| Health and Human Services | Forfeited Tax | Environmental Permanent | Other Governmental Funds | Total Governmental Funds |
|--------------------------------------|--------------------------|------------------------------------|---|---|
| \$ 5,042,511 | \$ - | \$ - | \$ 2,034,461 | \$ 20,669,921 |
| - | - | - | 909,261 | 909,261 |
| - | - | - | 50 | 61,903 |
| 9,291,047 | - | - | 767,063 | 28,446,526 |
| 614,103 | - | - | 647,699 | 3,559,045 |
| - | - | - | - | 59,771 |
| - | - | - | - | 5,777 |
| - | - | 255,857 | 30,648 | 1,524,416 |
| 639,324 | 5,656,450 | 1,042,071 | 230,216 | 8,691,272 |
| \$ 15,586,985 | \$ 5,656,450 | \$ 1,297,928 | \$ 4,619,398 | \$ 63,927,892 |
| \$ - | \$ 1,416,004 | \$ - | \$ 688,266 | \$ 8,495,919 |
| - | - | - | 805,774 | 8,364,679 |
| - | - | - | 1,083,784 | 21,730,022 |
| - | - | - | 1,611,177 | 1,611,177 |
| 14,970,943 | - | - | - | 14,970,943 |
| 1,412,219 | - | - | - | 1,577,884 |
| - | - | - | 394,035 | 721,458 |
| - | 1,553,815 | 55,998 | 1,036,854 | 3,060,634 |
| - | - | - | - | 141,344 |
| - | - | - | 1,090,000 | 1,090,000 |
| - | - | - | 340,328 | 340,328 |
| - | - | - | 1,093 | 1,093 |
| \$ 16,383,162 | \$ 2,969,819 | \$ 55,998 | \$ 7,051,311 | \$ 62,105,481 |
| \$ (796,177) | \$ 2,686,631 | \$ 1,241,930 | \$ (2,431,913) | \$ 1,822,411 |
| \$ 135,221 | \$ - | \$ - | \$ 4,406,847 | \$ 5,744,310 |
| - | (2,768,766) | - | (237,863) | (5,669,310) |
| \$ 135,221 | \$ (2,768,766) | \$ - | \$ 4,168,984 | \$ 75,000 |
| \$ (660,956) | \$ (82,135) | \$ 1,241,930 | \$ 1,737,071 | \$ 1,897,411 |
| 2,024,961 | 917,758 | 7,508,195 | 12,999,528 | 40,977,579 |
| - | - | - | - | 65,782 |
| \$ 1,364,005 | \$ 835,623 | \$ 8,750,125 | \$ 14,736,599 | \$ 42,940,772 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 6

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

| | | |
|---|--------------------|--------------------------|
| Net change in fund balances - total governmental funds (Exhibit 5) | \$ | 1,897,411 |
| <p>Amounts reported for governmental activities in the statement of activities are different because:</p> | | |
| <p>In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. For details of the adjustment, See Note 2.C.</p> | | 2,046,813 |
| <p>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.</p> | | |
| <p>Expenditures for general capital assets and infrastructure</p> | \$ 11,996,596 | |
| <p>Current year depreciation</p> | <u>(3,914,260)</u> | 8,082,336 |
| <p>In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the capital assets disposed of.</p> | | (283,422) |
| <p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p> | | |
| <p>Principal repayments</p> | | |
| <p>General obligation bonds</p> | | 1,090,000 |
| <p>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.</p> | | |
| <p>Change in accrued interest payable</p> | \$ 9,233 | |
| <p>Amortization of deferred issuance charges</p> | (9,780) | |
| <p>Change in compensated absences</p> | (39,870) | |
| <p>Change in inventories</p> | <u>65,782</u> | 25,365 |
| <p>Internal service funds are used by management to charge the costs of certain activities to individual funds. The net (expense) revenue of the internal service funds is reported with governmental activities.</p> | | |
| <p>Change in net assets of the Internal Service Fund</p> | | <u>(69,010)</u> |
| Change in net assets of governmental activities (Exhibit 2) | \$ | <u>12,789,493</u> |

PROPRIETARY FUNDS

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 7

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

| | Enterprise Funds | | | Totals | Internal Service Fund |
|--------------------------------|-------------------------|--------------------------------|---------------------------------------|----------------------|--------------------------------------|
| | Nursing Home | Itasca Medical Care | Itasca Resource Center | | |
| Assets | | | | | |
| Current assets | | | | | |
| Cash and pooled investments | \$ 73,929 | \$ 5,270,322 | \$ 720,531 | \$ 6,064,782 | \$ 3,404,732 |
| Petty cash and change funds | 1,560 | - | - | 1,560 | - |
| Accounts receivable - net | 1,819,691 | 1,100,341 | 3,360 | 2,923,392 | 36,200 |
| Accrued interest receivable | - | - | - | - | 780 |
| Due from other funds | - | - | 182,614 | 182,614 | - |
| Inventories | 31,268 | - | - | 31,268 | - |
| Prepaid items | 109,345 | - | 16,547 | 125,892 | - |
| Total current assets | \$ 2,035,793 | \$ 6,370,663 | \$ 923,052 | \$ 9,329,508 | \$ 3,441,712 |
| Restricted assets | | | | | |
| Cash and pooled investments | \$ 340,502 | \$ - | \$ - | \$ 340,502 | \$ - |
| Resident trust funds | 23,948 | - | - | 23,948 | - |
| Total restricted assets | \$ 364,450 | \$ - | \$ - | \$ 364,450 | \$ - |
| Noncurrent assets | | | | | |
| Deferred debt issue costs | \$ 133,332 | \$ - | \$ - | \$ 133,332 | \$ - |
| Capital assets | | | | | |
| Nondepreciable | 22,496 | - | 256,800 | 279,296 | - |
| Depreciable - net | 8,142,929 | 429,863 | 1,393,586 | 9,966,378 | - |
| Total noncurrent assets | \$ 8,298,757 | \$ 429,863 | \$ 1,650,386 | \$ 10,379,006 | \$ - |
| Total Assets | \$ 10,699,000 | \$ 6,800,526 | \$ 2,573,438 | \$ 20,072,964 | \$ 3,441,712 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 7
(Continued)**

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

| | <u>Enterprise Funds</u> | | | <u>Totals</u> | <u>Internal Service Fund</u> |
|---|-------------------------|--------------------------------|---------------------------------------|----------------------|--------------------------------------|
| | <u>Nursing Home</u> | <u>Itasca Medical Care</u> | <u>Itasca Resource Center</u> | | |
| Liabilities | | | | | |
| Current liabilities | | | | | |
| Accounts payable | \$ 249,433 | \$ 492,835 | \$ 8,347 | \$ 750,615 | \$ 1,676 |
| Salaries payable | 70,620 | 157,867 | - | 228,487 | 2,137 |
| Compensated absences payable - current | 309,810 | - | - | 309,810 | - |
| Claims and judgments payable - current | - | 2,781,426 | - | 2,781,426 | - |
| Due to other governments | - | - | - | - | 46,442 |
| Accrued interest payable | 52,069 | - | - | 52,069 | - |
| General obligation bonds payable - current | 160,000 | - | - | 160,000 | - |
| Revenue bonds payable - current | 75,000 | - | - | 75,000 | - |
| Total current liabilities | \$ 916,932 | \$ 3,432,128 | \$ 8,347 | \$ 4,357,407 | \$ 50,255 |
| Current liabilities payable from restricted assets | | | | | |
| Due to residents | \$ 23,948 | \$ - | \$ - | \$ 23,948 | \$ - |
| Noncurrent liabilities | | | | | |
| Compensated absences payable | \$ 344,684 | \$ - | \$ - | \$ 344,684 | \$ - |
| Claims and judgments payable | - | - | - | - | 400,303 |
| General obligation bonds payable | 1,138,989 | - | - | 1,138,989 | - |
| Provider settlements | - | 300,285 | - | 300,285 | - |
| Revenue bonds payable | 4,290,000 | - | - | 4,290,000 | - |
| Total noncurrent liabilities | \$ 5,773,673 | \$ 300,285 | \$ - | \$ 6,073,958 | \$ 400,303 |
| Total Liabilities | \$ 6,714,553 | \$ 3,732,413 | \$ 8,347 | \$ 10,455,313 | \$ 450,558 |
| Net Assets | | | | | |
| Invested in capital assets - net of related debt | \$ 2,751,629 | \$ - | \$ 1,650,386 | \$ 4,402,015 | \$ - |
| Restricted for other purposes | 13,269 | - | - | 13,269 | - |
| Unrestricted | 1,219,549 | 3,068,113 | 914,705 | 5,202,367 | 2,991,154 |
| Total Net Assets | \$ 3,984,447 | \$ 3,068,113 | \$ 2,565,091 | \$ 9,617,651 | \$ 2,991,154 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Enterprise Funds | | | | Internal Service Fund |
|-------------------------------------|---------------------|------------------------|------------------------------|----------------------|-----------------------------|
| | Nursing Home | Itasca Medical Care | Itasca Resource Center | Totals | |
| Operating Revenues | | | | | |
| Charges for services | \$ - | \$ - | \$ 413,162 | \$ 413,162 | \$ - |
| Patient services revenues | 7,817,297 | - | - | 7,817,297 | - |
| Insurance dividends | - | - | - | - | 157,882 |
| Miscellaneous | 1,635,099 | 789,289 | - | 2,424,388 | 325,818 |
| Capitation revenue | - | 22,502,293 | - | 22,502,293 | - |
| Prior year settlement | - | - | - | - | - |
| Total Operating Revenues | \$ 9,452,396 | \$ 23,291,582 | \$ 413,162 | \$ 33,157,140 | \$ 483,700 |
| Operating Expenses | | | | | |
| Capitation expense | \$ - | \$ 541,748 | \$ - | \$ 541,748 | \$ - |
| Other medical expense | - | 720,431 | - | 720,431 | - |
| Pharmacy claims expense | - | 4,698,907 | - | 4,698,907 | - |
| Medical claims expense | - | 15,295,611 | - | 15,295,611 | - |
| Employee benefits and payroll taxes | 1,064,753 | - | - | 1,064,753 | - |
| Professional services | - | - | 142,571 | 142,571 | 14,473 |
| Nursing services | 3,227,670 | - | - | 3,227,670 | - |
| Plant operations | 904,405 | - | - | 904,405 | - |
| Claims paid | - | - | - | - | 407,156 |
| Administration and fiscal services | 725,951 | 2,034,885 | - | 2,760,836 | - |
| Other care-related | 325,595 | - | - | 325,595 | - |
| Other services and charges | 753,628 | - | - | 753,628 | - |
| Supplies | - | - | 20,916 | 20,916 | 929 |
| Payroll | - | - | - | - | 48,801 |
| Employee benefits | - | - | - | - | 18,230 |
| Travel | - | - | - | - | 1,047 |
| Telephone | - | - | 9,297 | 9,297 | 420 |
| Utilities | - | - | 52,270 | 52,270 | - |
| Fuel | - | - | 22,009 | 22,009 | - |
| Insurance | - | - | - | - | 125,714 |
| Staff training | - | - | - | - | 1,965 |
| Licenses and dues | - | - | - | - | 1,860 |
| Postage | - | - | - | - | 84 |
| Vehicle expense | - | - | - | - | 307 |
| Other property and related costs | 58,853 | - | - | 58,853 | - |
| Laundry | 119,597 | - | - | 119,597 | - |
| Dietary | 848,618 | - | - | 848,618 | - |
| Housekeeping | 196,873 | - | - | 196,873 | - |
| Amortization | 7,486 | - | - | 7,486 | - |
| Depreciation | 365,465 | - | 225,396 | 590,861 | - |
| Repairs | - | - | 9,712 | 9,712 | - |
| Total Operating Expenses | \$ 8,598,894 | \$ 23,291,582 | \$ 482,171 | \$ 32,372,647 | \$ 620,986 |
| Operating Income (Loss) | \$ 853,502 | \$ - | \$ (69,009) | \$ 784,493 | \$ (137,286) |

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

Page 23

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 8
(Continued)**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Enterprise Funds | | | Totals | Internal Service Fund |
|---|---------------------|------------------------|------------------------------|---------------------|-----------------------------|
| | Nursing Home | Itasca Medical Care | Itasca Resource Center | | |
| Nonoperating Revenues (Expenses) | | | | | |
| Intergovernmental | \$ 18,192 | \$ - | \$ - | \$ 18,192 | \$ - |
| Interest income | 568 | 202,340 | - | 202,908 | 68,276 |
| Contributions and donations | 17,975 | - | - | 17,975 | - |
| Interest expense | (314,970) | - | - | (314,970) | - |
| Total Nonoperating Revenues (Expenses) | \$ (278,235) | \$ 202,340 | \$ - | \$ (75,895) | \$ 68,276 |
| Income (Loss) Before Contributions and Transfers | \$ 575,267 | \$ 202,340 | \$ (69,009) | \$ 708,598 | \$ (69,010) |
| Transfers out | - | - | (75,000) | (75,000) | - |
| Change in net assets | \$ 575,267 | \$ 202,340 | \$ (144,009) | \$ 633,598 | \$ (69,010) |
| Net Assets - Beginning | 3,409,180 | 2,865,773 | 2,709,100 | 8,984,053 | 3,060,164 |
| Net Assets - Ending | \$ 3,984,447 | \$ 3,068,113 | \$ 2,565,091 | \$ 9,617,651 | \$ 2,991,154 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005
Increase (Decrease) in Cash and Cash Equivalents**

| | Enterprise Funds | | | Totals | Internal Service Fund |
|--|---------------------|---------------------------|------------------------------|-----------------------|-----------------------------|
| | Nursing Home | Itasca Medical Care | Itasca Resource Center | | |
| Cash Flows from Operating Activities | | | | | |
| Receipts from customers and users | \$ 8,753,812 | \$ - | \$ 419,558 | \$ 9,173,370 | \$ - |
| Receipts from internal services provided | - | - | - | - | 299,269 |
| Receipts from capitation and other | - | 23,291,582 | - | 23,291,582 | - |
| Receipts from other operating revenue | - | - | - | - | 157,882 |
| Payments to suppliers | (4,278,819) | - | (124,126) | (4,402,945) | (531,706) |
| Payments to employees | (3,923,128) | - | - | (3,923,128) | (66,918) |
| Payments to providers, suppliers, and employees | - | (24,735,549) | - | (24,735,549) | - |
| Net cash provided by (used in) operating activities | \$ 551,865 | \$ (1,443,967) | \$ 295,432 | \$ (596,670) | \$ (141,473) |
| Cash Flows from Noncapital Financing Activities | | | | | |
| Contributions and donations | \$ 17,975 | \$ - | \$ - | \$ 17,975 | \$ - |
| Nursing Home payment adjustment received | 18,192 | - | - | 18,192 | - |
| Transfers out | - | - | (75,000) | (75,000) | - |
| Net cash provided by (used in) noncapital financing activities | \$ 36,167 | \$ - | \$ (75,000) | \$ (38,833) | \$ - |
| Cash Flows from Capital and Related Financing Activities | | | | | |
| Acquisition of capital assets | \$ (352,563) | \$ (429,863) | \$ (52,319) | \$ (834,745) | \$ - |
| Principal and interest paid on general obligation revenue bonds | (219,110) | - | - | (219,110) | - |
| Principal and interest paid on revenue bonds | (322,050) | - | - | (322,050) | - |
| Net cash provided by (used in) capital and related financing activities | \$ (893,723) | \$ (429,863) | \$ (52,319) | \$ (1,375,905) | \$ - |
| Cash Flows from Investing Activities | | | | | |
| Interest received | \$ 3,057 | \$ 202,340 | \$ - | \$ 205,397 | \$ 67,984 |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ (302,634) | \$ (1,671,490) | \$ 168,113 | \$ (1,806,011) | \$ (73,489) |
| Cash and Cash Equivalents Beginning | 718,625 | 6,941,812 | 552,418 | 8,212,855 | 3,478,221 |
| Ending | \$ 415,991 | \$ 5,270,322 | \$ 720,531 | \$ 6,406,844 | \$ 3,404,732 |

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

Page 25

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005
Increase (Decrease) in Cash and Cash Equivalents**

| | Enterprise Funds | | | Totals | Internal Service Fund |
|--|---------------------|---------------------------|------------------------------|-----------------------|-----------------------------|
| | Nursing Home | Itasca Medical Care | Itasca Resource Center | | |
| Cash and Cash Equivalents - Exhibit 7 | | | | | |
| Cash and pooled investments | \$ 73,929 | \$ 5,270,322 | \$ 720,531 | \$ 6,064,782 | \$ 3,404,732 |
| Petty cash and change funds | 1,560 | - | - | 1,560 | - |
| Restricted cash and pooled investments | 340,502 | - | - | 340,502 | - |
| Total Cash and Cash Equivalents | \$ 415,991 | \$ 5,270,322 | \$ 720,531 | \$ 6,406,844 | \$ 3,404,732 |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities | | | | | |
| Operating income (loss) | \$ 853,502 | \$ - | \$ (69,009) | \$ 784,493 | \$ (137,286) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities | | | | | |
| Depreciation expense | \$ 365,465 | \$ - | \$ 225,396 | \$ 590,861 | \$ - |
| Amortization expense | 7,486 | - | - | 7,486 | - |
| (Increase) decrease in | | | | | |
| Accounts receivable | (698,584) | (198,612) | 6,396 | (890,800) | (26,549) |
| Due from other funds | - | - | 116,468 | 116,468 | - |
| Inventories | 7,258 | - | - | 7,258 | - |
| Prepaid items | (11,282) | - | 8,273 | (3,009) | - |
| (Increase) decrease in | | | | | |
| Accounts payable | 93,332 | 30,365 | 7,908 | 131,605 | (790) |
| Salaries payable | 17,695 | - | - | 17,695 | 113 |
| Compensated absences payable | (83,007) | - | - | (83,007) | - |
| Due to other governments | - | - | - | - | 22,100 |
| Claims payable | - | (1,146,390) | - | (1,146,390) | 939 |
| Other current liabilities | - | (129,330) | - | (129,330) | - |
| Total adjustments | \$ (301,637) | \$ (1,443,967) | \$ 364,441 | \$ (1,381,163) | \$ (4,187) |
| Net Cash Provided by (Used in) Operating Activities | \$ 551,865 | \$ (1,443,967) | \$ 295,432 | \$ (596,670) | \$ (141,473) |

FIDUCIARY FUNDS

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 10

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

| | Investment Trust | Agency |
|--|---------------------|---------------------|
| <u>Assets</u> | | |
| Cash and pooled investments | \$ 6,840 | \$ 2,327,037 |
| Investments | 207,532 | - |
| Receivables | | |
| Interest | 1,044 | - |
| Total Assets | \$ 215,416 | \$ 2,327,037 |
| <u>Liabilities</u> | | |
| Taxes collected in advance | \$ - | \$ 19,053 |
| Due to other governments | - | 2,307,984 |
| Total Liabilities | \$ - | \$ 2,327,037 |
| <u>Net Assets</u> | | |
| Net assets, held in trust for participants | \$ 215,416 | |

ITASCA COUNTY
GRAND RAPIDS, MINNESOTA

EXHIBIT 11

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

| | <u>Investment Trust</u> |
|---|---------------------------------|
| <u>Additions</u> | |
| Investment earnings | \$ 6,663 |
| <u>Deductions</u> | |
| Distributions to participants | <u>7,121</u> |
| Change in net assets | \$ (458) |
| Net Assets - Beginning of the Year | <u>215,874</u> |
| Net Assets - End of the Year | <u><u>\$ 215,416</u></u> |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so.

A. Financial Reporting Entity

Itasca County was established March 10, 1891, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Itasca County (primary government) and its component units for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Blended Component Units

Blended component units are legally separate organizations so intertwined with the County that they are, in substance, the same as the County and, therefore, are reported as if they were part of the County. Itasca County has two blended component units.

| <u>Component Unit</u> | <u>Included in the Reporting Entity Because</u> | <u>Separate Financial Statements</u> |
|-----------------------|---|--|
| Itasca Medical Care | County Commissioners are the governing body | Available at: Finance Department IMCare 1209 S.E. 2nd Avenue Grand Rapids, Minnesota 55744 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Blended Component Units (Continued)

| <u>Component Unit</u> | <u>Included in the Reporting Entity Because</u> | <u>Separate Financial Statements</u> |
|--|---|--|
| Itasca County Regional Railroad Authority | County Commissioners are the governing body | Separate financial statements are not prepared. The transactions of the Regional Railroad Authority are reported in the General Fund. |

Itasca Medical Care was created by the Itasca County Health and Human Services (ICHHS) Board on July 1, 1982, under Minn. Stat. § 256B.692, which empowers the elected Board of County Commissioners to operate, control, and manage all matters concerning the County's health care functions.

Joint Ventures

Joint Ventures - The County is involved in several joint ventures with surrounding counties and other units of government. Details on these joint ventures are included in Note 5.E.

Jointly-Governed Organizations - The County is involved with several jointly-governed organizations. Details on these jointly-governed organizations are included in Note 5.F.

Related Organization - A related organization is discussed in Note 5.G.

B. Basic Financial Statements

1. Government-Wide Statements

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

The Forfeited Tax Special Revenue Fund is used to account for proceeds from the sale or rental of lands forfeited to the State of Minnesota pursuant to Minn. Stat. ch. 282 and for timber sales from these tax-forfeited lands. Revenues in excess of expenditures are distributed according to Minnesota statutes.

The Environmental Permanent Fund is used to account for funds collected from the sale of County-owned lakeshore leased lots. In accordance with 1998 Minn. Laws ch. 389, art 16, § 31, the principal on these sales must remain in an environmental trust, and the interest may be spent only on improvement of natural resources.

The County reports the following major proprietary funds:

The Nursing Home Enterprise Fund is used to account for the operations of the County's nursing home in Grand Rapids. Activities necessary to provide nursing home services are accounted for in this fund.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Itasca Medical Care Enterprise Fund is used to account for the operations of Itasca Medical Care. Activities necessary to operate, control, and manage all matters concerning the County's health care functions are accounted for in this fund.

Additionally, the County reports the following fund types:

The Internal Service Fund is used to account for the self-insured workers' compensation program. Financing is provided by charges to the various participating governmental funds.

The Investment Trust Fund accounts for the pooled and nonpooled investments held on behalf of external participants. The County maintains a Cemetery Investment Trust Fund.

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Itasca County considers all revenues as available if collected within 60 days after the end of the

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on 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.

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

D. Assets, Liabilities, and Net Assets or Equity

1. 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. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2005, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2005 were \$1,816,347.

3. Receivables and Payables

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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.”

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

Loans receivable consist of a loan made to the Grand Rapids-Itasca County Joint Airport Commission to finance the construction of airport improvements.

4. Inventories and Prepaid Items

The supplies inventory in the General Fund is stated at cost determined by the first-in, first-out method. The Road and Bridge Special Revenue Fund inventory is valued at cost using the average cost method and consists of expendable supplies and parts held for consumption. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

The supplies inventories in the Nursing Home Enterprise Fund are stated at cost determined by the first-in, first-out method. The cost of the inventory in the enterprise funds is recorded as an expense at the time the inventory is 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.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Restricted Assets

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

6. Capital Assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

| <u>Assets</u> | <u>Years</u> |
|------------------------------------|--------------|
| Buildings | 15 - 40 |
| Building improvements | 5 - 25 |
| Public domain infrastructure | 50 - 75 |
| Furniture, equipment, and vehicles | 3 - 15 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Unused accumulated vacation and vested sick leave are paid to employees upon termination, or vested sick leave is applied toward payment of 50 percent dependent health coverage. Unvested sick leave is available to employees in the event of illness-related absences, and is not paid to them at termination.

Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

8. Deferred Revenue

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

9. Long-Term Obligations

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

9. Long-Term Obligations (Continued)

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

10. Fund Equity

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

2. Adjustments and Reconciliations

A. Prior Period Adjustment

| | |
|--|-----------------------|
| Net Assets - January 1, as previously reported | \$ 144,157,570 |
| Restatement | <u>534,814</u> |
| Net Assets - January 1, as restated | <u>\$ 144,692,384</u> |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

2. Adjustments and Reconciliations

A. Prior Period Adjustment (Continued)

In 2004, construction was in progress on remodeling a building to house the Land Department. This construction in progress was not reported as a capital asset in the 2004 financial statements. Construction was completed in 2005. The portion which was completed in 2004 is shown as a restatement of beginning capital assets and beginning net assets.

B. Governmental Funds Balance Sheet and Statement of Net Assets

Exhibit 4 provides a reconciliation between fund balances as reported in the governmental funds balance sheet and net assets--governmental activities as reported in the statement of net assets. One element of that reconciliation is "other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds." The details of this \$7,510,257 are as follows:

Included in the long-term assets are receivables for forfeited tax sales. Forfeited tax sales are distributed to the County and certain governments within the County. Receivables not available to pay current expenditures have been deferred in the funds. Included in these receivables are amounts that will be paid to other governments when received. In the government-wide financial statements, the deferred revenue is reported as revenue for the County's portion and as due to other governments for the liability.

| | |
|--|---------------------|
| Deferred revenue | \$ 10,217,181 |
| Due to other governments | <u>2,706,924</u> |
| Adjustment to Increase Fund Balances to Arrive at Net Assets--Governmental Activities | <u>\$ 7,510,257</u> |

C. Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and Statement of Activities

Exhibit 6 is a reconciliation between the increase in governmental funds fund balance and the increase in net assets--governmental activities. One element of that increase is "in the funds, under the modified accrual basis, receivables not available for

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

2. Adjustments and Reconciliations

C. Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and Statement of Activities (Continued)

expenditures are deferred. In the statement of activities, those revenues are recognized when earned.” The adjustment to revenues is the increase (decrease) in revenues deferred as unavailable. The details of the \$2,046,813 adjustment are:

| | | |
|--|---------------|--|
| Deferred revenue at December 31, 2005 | \$ 10,217,181 | |
| Deferred revenue at December 31, 2004 | (6,966,386) | |
| Increase in deferred revenue | \$ 3,250,795 | |
| Less: increase in deferred revenue attributable to forfeited tax sales, reported as due to other governments | (1,203,982) | |
| Adjustment to Change in Fund Balances to Arrive at Change in Net Assets--Governmental Activities | \$ 2,046,813 | |

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

| | | |
|-----------------------------|---------------|--|
| Primary government | | |
| Cash and pooled investments | \$ 54,300,792 | |
| Restricted assets | | |
| Cash and pooled investments | 340,502 | |
| Fiduciary funds | | |
| Cash and pooled investments | | |
| Investment trust funds | 6,840 | |
| Agency funds | 2,327,037 | |
| Investments | | |
| Investment trust funds | 207,532 | |
| Total Cash and Investments | \$ 57,182,703 | |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires all County deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds. At December 31, 2005, the County had \$362,174 of deposits not covered by collateral as required by Minn. Stat. § 118A.03.

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may be returned to it. The County has a policy requiring certificates of deposit to be collateralized in accordance with Minnesota statutes. The policy requires collateral to be deposited in the name of Itasca County and subject to release by the County Auditor/Treasurer. As of December 31, 2005, \$362,174 of the primary government's bank balances of \$58,657,726 was exposed to custodial credit risk as follows:

| | |
|--------------------------------|-------------------|
| Uninsured and uncollateralized | <u>\$ 362,174</u> |
|--------------------------------|-------------------|

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The County's policy is that no more than five percent of the total investments should extend beyond five years and no investments should extend beyond ten years.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute. At December 31, 2005, the County had investments of \$439,162 in the Franklin Fund Mutual Fund rated AAA by Standard and Poors.

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 in the possession of an outside party. To minimize this risk, it is the County's policy to investigate brokers/dealers' credit worthiness prior to investment. Brokers/dealers must be certified by the National Association of Securities Dealers and must provide asset protection of \$500,000 through the Securities Investor Protection Corporation and at least another \$2,500,000 supplemental insurance protection.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

At December 31, 2005, none of Itasca 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. The County does not have a policy regarding the concentration of credit risk. At December 31, 2005, the County's investment in the Franklin Fund Mutual Fund is the only individual investment greater than five percent of the County's portfolio. The mutual fund is nine percent.

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

| Investment Type | Concentration Risk Over 5 Percent of Portfolio | Interest Rate Risk Maturity Date | Carrying (Fair) Value |
|-------------------------------------|---|---|-----------------------------|
| Investment pools/mutual funds | | | |
| Franklin Fund Mutual Fund | 9% | N/A | \$ 439,162 |
| Edward Jones money market | < 5% | N/A | 4,292 |
| | | | <u>\$ 443,454</u> |
| Total investment pools/mutual funds | | | |
| Negotiable certificates of deposit | | | |
| Covest - Desplains, IL | < 5% | 1/9/06 | \$ 97,966 |
| Crystal Lake Bank & Trust | < 5% | 2/14/06 | 96,903 |
| Bank Atlantic Federal Savings | < 5% | 4/4/06 | 97,804 |
| Valley National Bank | < 5% | 4/17/06 | 97,804 |
| Union State Bank | < 5% | 4/24/06 | 97,804 |
| Corus Bank | < 5% | 9/5/06 | 96,857 |
| First Signature Bank | < 5% | 11/6/06 | 96,335 |
| Meridian Bank | < 5% | 11/7/06 | 96,411 |
| Commerce Bank - Geneva, MN | < 5% | 11/9/06 | 98,349 |
| First American | < 5% | 11/20/06 | 96,717 |
| The Bank of Holland | < 5% | 11/20/06 | 96,473 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

| Investment Type | Concentration Risk Over 5 Percent of Portfolio | Interest Rate Risk Maturity Date | Carrying (Fair) Value |
|--|---|---|-----------------------------|
| Huntington National Bank | < 5% | 12/11/06 | 49,356 |
| American National Bank | < 5% | 1/16/07 | 96,300 |
| Bangor Savings Bank | < 5% | 1/29/07 | 96,563 |
| Broadway Bank | < 5% | 2/12/07 | 97,327 |
| First Financial Bank | < 5% | 4/23/07 | 95,647 |
| First National Bank | < 5% | 5/29/07 | 96,403 |
| Sky Bank | < 5% | 6/22/07 | 96,960 |
| Pacific Capital Bank | < 5% | 7/25/07 | 96,536 |
| Penn Federal Savings Bank | < 5% | 7/25/07 | 96,536 |
| Discover Bank | < 5% | 7/30/07 | 95,997 |
| Guaranty Bank | < 5% | 8/20/07 | 96,345 |
| Volkswagen Bank | < 5% | 9/24/07 | 95,977 |
| First United Bank | < 5% | 9/28/07 | 95,559 |
| Sunflower Bank | < 5% | 9/28/07 | 95,559 |
| Capital One Bank - Glen Allen, VA | < 5% | 10/27/07 | 95,253 |
| Riggs Bank - McLean, VA | < 5% | 10/29/07 | 96,479 |
| GMAC Automotive Bank | < 5% | 11/19/07 | 95,807 |
| Bank of Coweta | < 5% | 11/28/07 | 96,401 |
| Libertyville Bank & Trust Company, IL | < 5% | 2/14/08 | 97,503 |
| EverBank | < 5% | 2/26/08 | 94,812 |
| Treasury Bank | < 5% | 2/26/08 | 95,756 |
| Camden National Bank | < 5% | 3/10/08 | 94,560 |
| Intercredit Bank | < 5% | 3/26/08 | 94,391 |
| Doral Bank - Puerto Rico | < 5% | 3/31/08 | 94,374 |
| BMW Bank | < 5% | 4/14/08 | 95,849 |
| Tower Bank & Trust | < 5% | 4/23/08 | 97,591 |
| Amcore Bank | < 5% | 5/27/08 | 95,685 |
| R-G Crown Bank | < 5% | 5/27/08 | 95,012 |
| Banko Bilbaq - Puerto Rico | < 5% | 9/8/08 | 95,784 |
| HSBC Bank | < 5% | 9/8/08 | 95,663 |
| First Business Bank | < 5% | 11/10/08 | 96,738 |
| Intergera Bank | < 5% | 11/10/08 | 96,738 |
| Montgomery Bank | < 5% | 12/22/08 | 49,931 |
| Macatawa Bank | < 5% | 7/29/10 | 39,263 |
| Total negotiable certificates of deposit | | | \$ 4,184,078 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

| Investment Type | Concentration Risk Over 5 Percent of Portfolio | Interest Rate Risk Maturity Date | Carrying (Fair) Value |
|--------------------------------|---|---|-----------------------------|
| Total Investments | | | \$ 4,627,532 |
| Deposits | | | 52,543,216 |
| Petty cash and change funds | | | 11,955 |
| Total Investments and Deposits | | | <u>\$ 57,182,703</u> |

< 5% - Concentration is less than 5% of investments
N/A - Not Applicable

2. Receivables

Receivables as of December 31, 2005, for the County's governmental activities and business-type activities are as follows:

| | Total Receivables | Amounts Not Scheduled for Collection During the Subsequent Year |
|---------------------------------|----------------------|--|
| Governmental Activities | | |
| Taxes | \$ 602,809 | \$ - |
| Special assessments | 128,965 | - |
| Due from other governments | 5,012,006 | - |
| Accounts | 7,676,834 | - |
| Interest | 454,086 | - |
| Loans | 117,000 | 107,000 |
| Total Governmental Activities | <u>\$ 13,991,700</u> | <u>\$ 107,000</u> |
| Business-Type Activities | | |
| Accounts | <u>\$ 2,923,392</u> | <u>\$ -</u> |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Governmental Activities

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

| | Beginning Balance Restated | Increase | Decrease | Ending Balance |
|--|----------------------------------|---------------|--------------|-------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 1,126,668 | \$ - | \$ 6,072 | \$ 1,120,596 |
| Construction in progress | 534,814 | 446,735 | 830,939 | 150,610 |
| Total capital assets not depreciated | \$ 1,661,482 | \$ 446,735 | \$ 837,011 | \$ 1,271,206 |
| Capital assets depreciated | | | | |
| Buildings | \$ 24,155,161 | \$ 1,083,793 | \$ 142,821 | \$ 25,096,133 |
| Machinery, furniture, and equipment | 14,966,853 | 1,122,915 | 521,397 | 15,568,371 |
| Infrastructure | 106,661,027 | 10,174,092 | - | 116,835,119 |
| Total capital assets depreciated | \$ 145,783,041 | \$ 12,380,800 | \$ 664,218 | \$ 157,499,623 |
| Less: accumulated depreciation for | | | | |
| Buildings | \$ 7,034,599 | \$ 583,269 | \$ 27,208 | \$ 7,590,660 |
| Machinery, furniture, and equipment | 8,588,549 | 1,088,537 | 359,660 | 9,317,426 |
| Infrastructure | 21,511,579 | 2,242,454 | - | 23,754,033 |
| Total accumulated depreciation | \$ 37,134,727 | \$ 3,914,260 | \$ 386,868 | \$ 40,662,119 |
| Total capital assets depreciated, net | \$ 108,648,314 | \$ 8,466,540 | \$ 277,350 | \$ 116,837,504 |
| Governmental Activities Capital Assets, Net | \$ 110,309,796 | \$ 8,913,275 | \$ 1,114,361 | \$ 118,108,710 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

Business-type capital asset activity for the County Nursing Home at September 30, 2005, Itasca Medical Center at December 31, 2005, and the Itasca Resource Center at December 31, 2005, was as follows:

| | <u>Beginning Balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Ending Balance</u> |
|---------------------------------------|------------------------------|-----------------|-----------------|---------------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 279,296 | \$ - | \$ - | \$ 279,296 |
| Capital assets depreciated | | | | |
| Buildings | \$ 13,540,769 | \$ 88,792 | \$ - | \$ 13,629,561 |
| Improvements other than buildings | 158,302 | 10,967 | - | 169,269 |
| Machinery, furniture, and equipment | 1,299,503 | 527,076 | - | 1,826,579 |
| Total capital assets depreciated | \$ 14,998,574 | \$ 626,835 | \$ - | \$ 15,625,409 |
| Less: accumulated depreciation for | | | | |
| Buildings | \$ 4,354,119 | \$ 497,291 | \$ - | \$ 4,851,410 |
| Improvements other than buildings | 103,056 | 4,928 | - | 107,984 |
| Machinery, furniture, and equipment | 610,995 | 88,642 | - | 699,637 |
| Total accumulated depreciation | \$ 5,068,170 | \$ 590,861 | \$ - | \$ 5,659,031 |
| Total capital assets depreciated, net | \$ 9,930,404 | \$ 35,974 | \$ - | \$ 9,966,378 |
| Business-Type Activities | | | | |
| Capital Assets, Net | \$ 10,209,700 | \$ 35,974 | \$ - | \$ 10,245,674 |

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

| | |
|---|---------------------|
| Governmental Activities | |
| General government | \$ 151,941 |
| Public safety | 374,884 |
| Highways and streets, including depreciation of infrastructure assets | 3,135,610 |
| Human services | 44,059 |
| Sanitation | 99,146 |
| Culture and recreation | 46,274 |
| Conservation of natural resources | 62,346 |
| Total Depreciation Expense - Governmental Activities | <u>\$ 3,914,260</u> |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

| | |
|---|-------------------|
| Business-Type Activities | |
| Nursing Home | \$ 365,465 |
| Itasca Resource Center | <u>225,396</u> |
| | |
| Total Depreciation Expense - Business-Type Activities | <u>\$ 590,861</u> |

4. Minimum Future Rents Receivable - Itasca Resource Center Enterprise Fund

On March 1, 1997, Itasca County entered into a 15-year lease agreement with KOOTASCA Community Action Inc., to occupy space in the Itasca County Resource Center. The lease was amended in July 2002, and KOOTASCA currently occupies 8,757 square feet at a rental rate of \$7.97 per square foot.

On February 1, 1997, Itasca County entered into a 15-year lease agreement with Independent School District #318 to occupy 6,353 square feet of space. The rental rate is currently \$6.55 per square foot.

On March 1, 1997, Itasca County entered into a five-year lease agreement with the State of Minnesota to occupy 3,985 square feet of office space for a rental rate of \$12.75 per square foot annually. On December 18, 2001, Itasca County amended the lease to continue through February 27, 2007, with the same terms and conditions set forth in the original lease.

On February 1, 1997, Itasca County entered into a 15-year lease with Itasca County Health and Human Services to occupy 24,159 square feet of space for a rental rate of \$5.75 per square foot. On March 1, 2002, the rate went from \$5.75 per square foot to \$6.55 per square foot.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

4. Minimum Future Rents Receivable - Itasca Resource Center Enterprise Fund
(Continued)

Minimum future rents on non-cancelable leases are:

| Year Ending December 31 | | Amount |
|----------------------------|--|--------------|
| 2006 | | \$ 320,458 |
| 2007 | | 278,118 |
| 2008 | | 269,649 |
| 2009 | | 269,649 |
| 2010 | | 269,649 |
| After 2010 | | 297,936 |
| Total | | \$ 1,705,459 |

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

| Receivable Fund | Payable Fund | Amount | Purpose |
|--|-------------------------------|--------------|-------------------------------|
| General | Health and Human Services | \$ 135,205 | Reimbursement for services |
| | Forfeited Tax | 1,068,693 | Apportionment of net proceeds |
| Total Due to General Fund | | \$ 1,203,898 | |
| Road and Bridge | General | \$ 2,433 | Reimbursement for services |
| | Nonmajor governmental fund | 469,965 | Road maintenance charges |
| Total Due to Road and Bridge Fund | | \$ 472,398 | |
| Health and Human Services | General | \$ 4,887 | Reimbursement for services |
| Nonmajor governmental funds | General | \$ 14 | Reimbursement for services |
| | Forfeited Tax | 2,914,207 | Apportionment of net proceeds |
| Total Due to Nonmajor Governmental Funds | | \$ 2,914,221 | |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> | <u>Purpose</u> |
|-------------------------------|---------------------------|---------------------|----------------------------|
| Itasca Resource Center | Health and Human Services | \$ 182,614 | Reimbursement for services |
| Total Due To/From Other Funds | | <u>\$ 4,778,018</u> | |

2. Interfund Transfers

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

| | | |
|--|---------------------|--|
| Transfers to General Fund from Forfeited Tax Fund | \$ 1,068,693 | Distribute net proceeds |
| Transfers to Road and Bridge Fund from nonmajor governmental funds | \$ 133,549 | Reimbursement for moving mechanics to new garage |
| Transfers to Health and Human Services Fund from General Fund | \$ 4,090 | Reimbursement for services |
| Nonmajor governmental funds | 56,131 | Reimbursement for services, provide funding, and transfer interest |
| Itasca Resource Center Enterprise Fund | <u>75,000</u> | Reimbursement for expenses |
| Transfers to Health and Human Services Fund | <u>\$ 135,221</u> | |
| Transfers to nonmajor governmental funds from General Fund | \$ 2,608,591 | Provide funding |
| Road and Bridge | 50,000 | Provide funding |
| Forfeited Tax Fund | 1,700,073 | Distribute net proceeds |
| Other nonmajor governmental funds | <u>48,183</u> | Provide funding |
| Total transfers to nonmajor governmental funds | <u>\$ 4,406,847</u> | |
| Total Interfund Transfers | <u>\$ 5,744,310</u> | |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

| | Governmental Activities | Business-Type Activities |
|--------------------------|----------------------------|-----------------------------|
| Accounts | \$ 1,986,498 | \$ 750,615 |
| Severance | 72,804 | - |
| Salaries | 1,033,639 | 228,487 |
| Escheat property | 16,631 | - |
| Contracts | 270,307 | - |
| Due to other governments | 5,717,485 | - |
| Claims and judgments | - | 2,781,426 |
| | \$ 9,097,364 | \$ 3,760,528 |
| Total Payables | \$ 9,097,364 | \$ 3,760,528 |

2. Other Post-Employment Benefits - Retirees

In addition to the benefits described in the Pension Plan note, the County provides postemployment health care benefits, in accordance with state statutes, to all County employees who retire from the County and meet age and years of service requirements. Currently, 192 retirees meet these eligibility requirements. The County pays 100 percent of single and 50 percent of dependent health insurance premiums for eligible retirees. Employees hired after January 1, 2000, are limited to \$20,000 maximum for retirement health insurance premiums. The County contributes various amounts toward retirees' medical insurance costs depending on retirees' ages and coverage. Expenditures for postemployment health care benefits, recognized as medical insurance premiums, are incurred by the County. During the year, expenditures of \$1,069,331 and \$308,084 from the Severance Pay Special Revenue Fund and the Health and Human Services Special Revenue Fund, respectively, were recognized for postemployment health care; expenses of \$102,870 were recognized from the County Nursing Home Enterprise Fund.

In 1999, the County contracted with an actuary to project the long-term cost of the County's postemployment medical benefits for both active and retired employees. The net present value of the expected medical benefits to be paid over 20 years was projected to be \$21,791,874. The County has not reported a liability for current or future retiree medical benefits in the financial statements.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Governmental Activities

| <u>Type of Indebtedness</u> | <u>Final Maturity</u> | <u>Installment Amounts</u> | <u>Interest Rate (%)</u> | <u>Original Issue Amount</u> | <u>Outstanding Balance December 31, 2005</u> |
|-------------------------------------|-----------------------|----------------------------|--------------------------|------------------------------|--|
| General obligation bonds | | | | | |
| 2002 G.O. Capital Improvement Bonds | 2017 | \$220,000 - \$835,000 | 2.50 - 4.80 | \$ 8,300,000 | \$ 7,620,000 |
| 2003 Law Enforcement Refunding Bond | 2006 | \$620,000 - \$640,000 | 1.20 - 1.70 | 1,890,000 | 640,000 |
| Total General Obligation Bonds | | | | <u>\$ 10,190,000</u> | <u>\$ 8,260,000</u> |

Business-Type Activities

| <u>Type of Indebtedness</u> | <u>Final Maturity</u> | <u>Installment Amounts</u> | <u>Interest Rate (%)</u> | <u>Original Issue Amount</u> | <u>Outstanding Balance September 30, 2005</u> |
|---------------------------------------|-----------------------|----------------------------|--------------------------|------------------------------|---|
| General obligation bonds | | | | | |
| 1998 G.O. Crossover Refunding Bonds | 2012 | \$135,000 - \$210,000 | 4.10 - 4.85 | \$ 1,880,000 | \$ 1,300,000 |
| 2003 Gross Revenue Nursing Home Bonds | 2033 | \$70,000 - \$305,000 | 2.50 - 6.25 | 4,435,000 | 4,365,000 |
| Total general obligation bonds | | | | <u>\$ 6,315,000</u> | \$ 5,665,000 |
| Less: unamortized discount | | | | | <u>(1,011)</u> |
| Total General Obligation Bonds, Net | | | | | <u>\$ 5,663,989</u> |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

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

Governmental Activities

| Year Ending December 31 | General Obligation Bonds | |
|----------------------------|--------------------------|--------------|
| | Principal | Interest |
| 2006 | \$ 1,120,000 | \$ 316,128 |
| 2007 | 500,000 | 294,382 |
| 2008 | 525,000 | 276,045 |
| 2009 | 550,000 | 255,745 |
| 2010 | 575,000 | 233,658 |
| 2011 - 2015 | 3,365,000 | 771,741 |
| 2016 - 2017 | 1,625,000 | 78,685 |
| Total | \$ 8,260,000 | \$ 2,226,384 |

Business-Type Activities

| Year Ending September 30 | General Obligation Crossover Refunding Bonds | | Gross Revenue Nursing Home Bonds | |
|-----------------------------|---|------------|-------------------------------------|--------------|
| | Principal | Interest | Principal | Interest |
| 2006 | \$ 160,000 | \$ 57,140 | \$ 75,000 | \$ 250,050 |
| 2007 | 170,000 | 49,755 | 75,000 | 247,612 |
| 2008 | 175,000 | 41,905 | 80,000 | 244,700 |
| 2009 | 185,000 | 33,532 | 80,000 | 241,400 |
| 2010 | 195,000 | 24,554 | 85,000 | 237,787 |
| 2011 - 2015 | 415,000 | 20,146 | 490,000 | 1,122,031 |
| 2016 - 2020 | - | - | 635,000 | 973,918 |
| 2021 - 2025 | - | - | 850,000 | 755,325 |
| 2026 - 2030 | - | - | 1,135,000 | 453,300 |
| 2031 - 2033 | - | - | 860,000 | 82,813 |
| Total | \$ 1,300,000 | \$ 227,032 | \$ 4,365,000 | \$ 4,608,936 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

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

Governmental Activities

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|-------------------|---------------------|----------------------|------------------------|
| General obligation bonds | \$ 9,350,000 | \$ - | \$ 1,090,000 | \$ 8,260,000 | \$ 1,120,000 |
| Compensated absences | 5,632,764 | 39,870 | - | 5,672,634 | 51,881 |
| Claims and judgments | 399,364 | 268,424 | 267,485 | 400,303 | - |
| Governmental Activities Long-Term Liabilities | <u>\$ 15,382,128</u> | <u>\$ 308,294</u> | <u>\$ 1,357,485</u> | <u>\$ 14,332,937</u> | <u>\$ 1,171,881</u> |

Long-term liabilities for Internal Service Funds are included as part of the above totals. For the Internal Service Fund, \$400,303 of claims and judgments payable are included in the amounts for the governmental activities at year-end.

Business-Type Activities

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|----------------------|-------------|---------------------|---------------------|------------------------|
| Bonds payable | | | | | |
| General obligation bonds | \$ 1,455,000 | \$ - | \$ 155,000 | \$ 1,300,000 | \$ 160,000 |
| Gross revenue bonds | 4,435,000 | - | 70,000 | 4,365,000 | 75,000 |
| Less: deferred amounts for issuance discounts | (1,159) | - | (148) | (1,011) | - |
| Total bonds payable | \$ 5,888,841 | \$ - | \$ 224,852 | \$ 5,663,989 | \$ 235,000 |
| Compensated absences | 737,501 | - | 83,007 | 654,494 | 309,810 |
| Provider settlements | 1,654,781 | - | 1,354,496 | 300,285 | - |
| Business-Type Activities Long-Term Liabilities | <u>\$ 8,281,123</u> | <u>\$ -</u> | <u>\$ 1,662,355</u> | <u>\$ 6,618,768</u> | <u>\$ 544,810</u> |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Conduit Debt

In 2004, the County issued \$9,980,000 of Industrial Development Revenue Bonds to provide financial assistance to Charles K. Blandin Foundation, a Minnesota nonprofit corporation, to be used to assist the Grand Itasca Clinic and Hospital in the construction of a new hospital and clinic deemed to be in the public interest. The bonds are payable solely from revenues of the Foundation. The County is not obligated in any manner for repayment of the bonds. Accordingly, the bonds will not be reported as liabilities in the County's financial statements. The balance of \$9,475,000 is outstanding at December 31, 2005.

7. Itasca Medical Care (IMCare) Liabilities

Claims Payable

Claims payable represents the estimated ultimate net cost of all reported and unreported claims incurred prior to and unpaid at the end of the year. The liability for unpaid claims is estimated primarily by the use of cost per contract data and completion factors developed from historical lag patterns. Those estimates are subject to the effects of trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the liability for claims payable is adequate. The estimates are reviewed and adjusted as experience develops or new information becomes known, and such adjustments are included in current operations. Activity in the liability for unpaid claims and claim adjustment expense for IMCare is summarized as follows:

| | 2005 | 2004 |
|-----------------------------|--------------|--------------|
| Balance - Beginning of Year | \$ 2,573,320 | \$ 2,051,136 |
| Amount incurred, related to | | |
| Prior years | (713,267) | (394,900) |
| Current year | 21,969,964 | 19,260,210 |
| Amount paid, related to | | |
| Prior years | (1,798,205) | (1,618,094) |
| Current year | (19,250,386) | (16,725,032) |
| Balance - End of Year | \$ 2,781,426 | \$ 2,573,320 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Itasca Medical Care (IMCare) Liabilities (Continued)

Provider Settlement

IMCare contracts with providers in Itasca County to provide healthcare services to its enrolled members. Under these arrangements, the providers receive an interim claim payment based upon fee for services schedules. These providers are at risk to the degree specified in their contracts and the net effect of all other revenues and expenses. The final settlement occurs when all claims are considered settled.

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Pension Plans

A. Defined Benefit 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 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

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

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. Public Employees Police and Fire Fund members were required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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 | \$ 1,023,190 | \$ 318,097 | \$ 22,202 |
| 2004 | 998,512 | 325,112 | 6,860 |
| 2003 | 949,485 | 308,008 | 6,507 |

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

B. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D. The plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

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

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

The County's contributions for the years ending December 31, 2005, 2004, and 2003, were \$10,082, \$10,216, and \$9,342, respectively, equal to the contractually required contributions for each year as set by state statute.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of the MCIT Property and Casualty Divisions. The County self-insures for workers' compensation through its Risk Management Internal Service Fund. For group health insurance, the County belongs to Arrowhead Procure. For other risks, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

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

The County's Risk Management Internal Service Fund is used to manage the workers' compensation claims which are self-insured by the County. Premiums are paid into the Risk Management Internal Service Fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. The County has not had an actuarial study to determine a claims liability for workers' compensation, but the claims administrator, a private company, has estimated a liability of \$400,303, which does not include incurred but not reported claims, at December 31, 2005. This amount is shown as a liability in the Risk Management Internal Service Fund. The County is a member of the Workers' Compensation Reinsurance Association. Under the plan, the County is liable for the first \$380,000 toward any claim arising from a single occurrence. The Association covers claims over \$380,000.

Changes in the balances of claims liabilities during the past two years are as follows:

| | Year Ended December 31 | |
|---|------------------------|-------------------|
| | 2005 | 2004 |
| Unpaid Claims, Beginning of Fiscal Year | \$ 399,364 | \$ 514,919 |
| Incurred claims | 268,424 | 156,764 |
| Claims payments | (267,485) | (272,319) |
| Unpaid Claims, End of Fiscal Year | <u>\$ 400,303</u> | <u>\$ 399,364</u> |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The County belongs to Arrowhead Procure, a joint powers entity, which sponsors a plan to provide group employee health benefits to its participating members. All members pool premiums and losses. Premiums are based on the experience of the group as a whole and are determined annually. Arrowhead Procure solicits proposals from carriers and negotiates the contracts. Group members choose from the available plans, and premiums are based on the negotiated rate for the plan chosen.

B. Subsequent Events

Tax Court Case Settlement

In January 2006, the County reached a settlement in a tax court case. The settlement reached will require the County to rebate approximately \$182,000 in taxes. The County has not made the payment as of the date of audit, pending finalization and signatures on all court documents.

Minnesota Steel and Excelsior Energy Projects

In 2006, the Minnesota State Legislature approved a \$12 million dollar appropriation to Itasca County to help pay for infrastructure development for a proposed steel plant and a proposed power plant in the County. Minnesota Steel is planning to build a steel mill near Nashwauk. Excelsior Energy is planning to build a power plant near the City of Taconite.

C. Excess of Expenditures Over Appropriations

For the year ended December 31, 2005, expenditures exceeded appropriations in the following funds:

| | | |
|--------------------------------------|----|-----------|
| General Fund | \$ | 1,072,207 |
| Road and Bridge Special Revenue Fund | | 6,957,928 |

D. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Contingent Liabilities (Continued)

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 government.

E. Joint Ventures

Itasca County-Grand Rapids Airport Commission

The County entered into a joint powers agreement with the City of Grand Rapids for the purpose of acquisition of the necessary lands and for the joint construction and operation of an airport.

The Itasca County-Grand Rapids Airport Commission is governed by a six-member board, composed of three members appointed by each government. If the agreement is terminated, each government has a 50 percent ownership of assets of the airport.

A summary of the financial information of the Itasca County-Grand Rapids Airport Commission's government-wide statements for the year ended December 31, 2005, was:

| | | |
|----------------------|----|-----------|
| Total assets | \$ | 4,772,590 |
| Total liabilities | | 544,917 |
| Total net assets | | 4,227,673 |
| Total revenues | | 1,619,289 |
| Total expenses | | 481,655 |
| Change in net assets | | 1,137,634 |

Itasca County contributed \$136,844 during 2005 to the Itasca County-Grand Rapids Airport Commission.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

E. Joint Ventures

Itasca County-Grand Rapids Airport Commission (Continued)

Separate financial information can be obtained from:

Airport Manager
420 North Pokegama Avenue
Grand Rapids, Minnesota 55744

Aitkin-Itasca-Koochiching Community Health Services Board

Aitkin, Itasca, and Koochiching Counties entered into a joint powers agreement, creating and operating the Aitkin-Itasca-Koochiching Community Health Services (CHS) Board effective January 1, 1977. This agreement is entered into under the authority of the Community Health Services Act of 1976, and is pursuant to the provisions of Minn. Stat. § 471.59, for the development and maintenance of an integrated system of community health services.

The CHS Board is composed of two members from Aitkin and Koochiching Counties and three members from Itasca County, each appointed by the participating counties. Funding is obtained through federal, state, local, and private sources. Itasca County receives all funds and appropriates to each county its share through its agency fund. Itasca County records its revenues and expenditures in the Health and Human Services Special Revenue Fund. CHS agency fund assets and liabilities were \$138,148 as of December 31, 2005.

No separate financial statements are available.

Northeast Minnesota Office of Job Training

Aitkin, Carlton, Cook, Itasca, Koochiching, Lake, and St. Louis Counties (excluding the City of Duluth) entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of developing and implementing a private and public job training program. The United States Congress, through the Job Training Partnership Act of 1982, authorized states to establish “service delivery areas” to provide programs to achieve full employment through the use of grants. The counties identified above are

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

E. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

defined as such a service delivery area, and the Northeast Minnesota Office of Job Training is designated as the grant recipient and administrator for such service delivery area. Itasca County is not a funding mechanism for this organization.

The governing body is composed of seven members, one from the Board of Commissioners of each of the participating counties.

A summary of the financial information of the Northeast Minnesota Office of Job Training's government-wide statements for June 30, 2005, was:

| | | |
|----------------------|----|-----------|
| Total Assets | \$ | 2,716,308 |
| Total Liabilities | | 1,173,716 |
| Total Net Assets | | 1,542,592 |
| Total Revenues | | 5,152,590 |
| Total Expenses | | 4,992,548 |
| Change in Net Assets | | 160,042 |

Separate financial information can be obtained from:

Northeast Minnesota Office of Job Training
820 North Ninth Street
Suite 210
Virginia, Minnesota 55792

Minnesota Counties Information Systems

Aitkin, Carlton, Cass, Chippewa, Cook, Crow Wing, Dodge, Itasca, Koochiching, Lac qui Parle, Lake, Sherburne, and St. Louis Counties entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of operating and maintaining data processing facilities and management information systems for use by its members.

MCIS is governed by a 13-member board, composed of a member appointed by each of the participating counties' Boards of Commissioners. Financing is obtained through user charges to the members. Cass County is the fiscal agent for MCIS.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

E. Joint Ventures

Minnesota Counties Information Systems (Continued)

A summary of the financial information of MCIS's funds for the fiscal year ended December 31, 2004 (the most recent available), was:

| | | |
|------------------------------------|----|-----------|
| Total Assets | \$ | 630,562 |
| Total Liabilities | | 240,172 |
| Total Fund Equity | | 390,390 |
| Total Revenues | | 2,193,747 |
| Total Expenses | | 2,114,231 |
| Increase (Decrease) in Fund Equity | | 79,516 |

Separate financial information can be obtained from:

Minnesota Counties Information Systems
413 Southeast 7th Avenue
Grand Rapids, Minnesota 55744

Mississippi Headwaters Board

Aitkin, Beltrami, Cass, Clearwater, Crow Wing, Hubbard, Itasca, and Morrison Counties entered into a joint powers agreement, pursuant to the provisions of Minn. Stat. § 471.59, for the purpose of preparing, adopting, and implementing a comprehensive land use plan designed to protect and enhance the Mississippi River and related shoreland areas within the counties.

The Mississippi Headwaters Board consists of eight members, one appointed from each participating county. Cass County maintains the accounting records of the Board. Funding is obtained through federal, state, local, and private sources. Itasca County provided \$1,500 to this organization during 2005.

Complete financial information can be obtained from:

Mississippi Headwaters Board
Cass County Courthouse
4th Street and Minnesota Avenue
Walker, Minnesota 56484

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

E. Joint Ventures (Continued)

Itasca County Family Service Collaborative

The Itasca County Family Service Collaborative was established pursuant to Minn. Stat. § 124D.23. The Collaborative includes Itasca County; KOOTASCA Community Action, Inc.; and Independent School District Nos. 316, 317, 318, and 319. The purpose of the Collaborative is to improve the lives of families and children through efforts focused on prevention and early intervention. The Collaborative seeks to empower parents and families to solve their own problems through support, information, skill building, and advocacy.

Control of the Collaborative is vested in a Board of Directors. The County has three members on the Board. Financing is provided by state and federal grants, appropriations from the Collaborative members, and miscellaneous revenues. Itasca County provided no funding to the Collaborative during 2005. Itasca County is the fiscal agent for the Collaborative, which is accounted for as an agency fund. Collaborative agency fund assets and liabilities were \$410,145 as of December 31, 2005.

No separate financial statements are available.

F. Jointly-Governed Organizations

Western Mesabi Mine Planning Board

The Western Mesabi Mine Planning Board is governed by a 16-member board, composed of one elected official appointed by each respective county board, city council, and township board that is a party to the agreement.

During 2005, there were no related-party transactions between Itasca County and the Western Mesabi Mine Planning Board.

KOOTASCA Community Action, Inc.

KOOTASCA Community Action, Inc., is governed by an 18-member board appointed equally from each county.

As discussed in Note 3.A.4, KOOTASCA Community Action, Inc. rents space from Itasca County.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations (Continued)

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, Mahnomon, 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 composed of ten directors, each with an alternate, who are appointed annually by each respective county board. Itasca County paid \$2,129 for membership dues in 2005.

South Central Itasca County Intergovernmental Planning Board

The County established a joint powers board under the authority of Minn. Stat. § 394.232, subd. 3, in order to implement the Community Based Planning Act which relates to planning for growth in the area governed by the participating parties. The members of the joint planning district are Itasca County; the Cities of Cohasset, Grand Rapids, and La Prairie; the towns of Harris, Arbo, and Trout Lake; and Independent School District 318.

The Planning Board is governed by an eight-member board. Each entity appoints one representative to the Board. Financing is provided by grants and membership fees. Itasca County provided no funding to this Board in 2005.

G. Related Organization

Housing and Redevelopment Authority of Itasca County

The five-member governing body of the Housing and Redevelopment Authority of Itasca County is appointed by Itasca County. Itasca County is not financially responsible for the Authority.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

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

H. Tax-Forfeited Land

The County manages approximately 300,000 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.

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REQUIRED SUPPLEMENTARY INFORMATION

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 1

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

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---------------------------------|-------------------------|----------------------|---------------------------|---------------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 8,240,815 | \$ 8,240,815 | \$ 8,029,937 | \$ (210,878) |
| Licenses and permits | 49,950 | 49,950 | 61,853 | 11,903 |
| Intergovernmental | 4,329,339 | 4,329,339 | 5,947,104 | 1,617,765 |
| Charges for services | 802,366 | 802,366 | 1,164,175 | 361,809 |
| Fines and forfeits | 51,250 | 51,250 | 59,771 | 8,521 |
| Gifts and contributions | 500 | 500 | 5,777 | 5,277 |
| Investment earnings | 650,000 | 650,000 | 1,237,911 | 587,911 |
| Miscellaneous | 340,480 | 340,480 | 736,086 | 395,606 |
| Total Revenues | \$ 14,464,700 | \$ 14,464,700 | \$ 17,242,614 | \$ 2,777,914 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Commissioners | \$ 336,334 | \$ 336,334 | \$ 365,482 | \$ (29,148) |
| Courts | 76,855 | 76,855 | 28,550 | 48,305 |
| Law library | 56,900 | 56,900 | 38,416 | 18,484 |
| County administration | 437,314 | 437,314 | 375,839 | 61,475 |
| County auditor | 990,185 | 990,185 | 1,075,573 | (85,388) |
| County assessor | 824,168 | 824,168 | 786,499 | 37,669 |
| Elections | 10,000 | 10,000 | 6,805 | 3,195 |
| Accounting and auditing | 60,000 | 60,000 | 61,785 | (1,785) |
| Data processing | 579,723 | 579,723 | 566,850 | 12,873 |
| Attorney | 948,521 | 948,521 | 951,767 | (3,246) |
| Recorder | 402,064 | 402,064 | 394,672 | 7,392 |
| Surveyor | 429,727 | 429,727 | 405,688 | 24,039 |
| Planning and zoning | 358,152 | 358,152 | 390,385 | (32,233) |
| Buildings and plant | 778,675 | 778,675 | 804,058 | (25,383) |
| Veterans service officer | 140,927 | 140,927 | 139,280 | 1,647 |
| Total general government | \$ 6,429,545 | \$ 6,429,545 | \$ 6,391,649 | \$ 37,896 |
| Public safety | | | | |
| Sheriff | \$ 3,075,198 | \$ 3,075,198 | \$ 3,108,037 | \$ (32,839) |
| Boat and water safety | 105,614 | 105,614 | 125,982 | (20,368) |
| Emergency services | 54,800 | 54,800 | 42,518 | 12,282 |
| Coroner | 31,200 | 31,200 | 48,032 | (16,832) |
| Federal arrest grant | - | - | 127,421 | (127,421) |
| E-911 system | 30,000 | 30,000 | 66,649 | (36,649) |
| County jail | 2,684,163 | 2,684,163 | 2,755,031 | (70,868) |
| Victim assistance | 61,597 | 61,597 | 56,016 | 5,581 |
| Probation and parole | 831,530 | 831,530 | 841,640 | (10,110) |
| Civil defense | 133,366 | 133,366 | 174,519 | (41,153) |
| Safehavens grant | 50,000 | 50,000 | 159,468 | (109,468) |
| Snowmobile safety | 12,300 | 12,300 | 25,834 | (13,534) |
| Other public safety | 9,900 | 9,900 | 27,758 | (17,858) |
| Total public safety | \$ 7,079,668 | \$ 7,079,668 | \$ 7,558,905 | \$ (479,237) |

The notes to the required supplementary information are an integral part of this schedule.

Page 70

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**Schedule 1
(Continued)**

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

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--|----------------------|----------------------|-----------------------|-------------------------------|
| | Original | Final | | |
| Expenditures | | | | |
| Current (Continued) | | | | |
| Health | | | | |
| Itasca County health network | \$ - | \$ - | \$ 165,665 | \$ (165,665) |
| Culture and recreation | | | | |
| Historical society | \$ 18,000 | \$ 18,000 | \$ 18,000 | \$ - |
| Fairgrounds | 27,668 | 27,668 | 47,919 | (20,251) |
| Humane society | 20,000 | 20,000 | 5,336 | 14,664 |
| Snowmobile and ski trail maintenance | 6,000 | 6,000 | 249,168 | (243,168) |
| Other | 7,000 | 7,000 | 7,000 | - |
| Total culture and recreation | \$ 78,668 | \$ 78,668 | \$ 327,423 | \$ (248,755) |
| Conservation of natural resources | | | | |
| County extension | \$ 92,071 | \$ 92,071 | \$ 97,617 | \$ (5,546) |
| Soil and water conservation | 90,000 | 90,000 | 90,000 | - |
| Title III federal forest funds | - | - | 201,528 | (201,528) |
| Shoreland management | 13,000 | 13,000 | 213 | 12,787 |
| Other | 2,450 | 2,450 | 24,609 | (22,159) |
| Total conservation of natural resources | \$ 197,521 | \$ 197,521 | \$ 413,967 | \$ (216,446) |
| Economic development | | | | |
| Airports | \$ 141,344 | \$ 141,344 | \$ 141,344 | \$ - |
| Total Expenditures | \$ 13,926,746 | \$ 13,926,746 | \$ 14,998,953 | \$ (1,072,207) |
| Excess of Revenues Over (Under) Expenditures | \$ 537,954 | \$ 537,954 | \$ 2,243,661 | \$ 1,705,707 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | \$ 612,000 | \$ 612,000 | \$ 1,068,693 | \$ 456,693 |
| Transfers out | (1,195,954) | (1,195,954) | (2,612,681) | (1,416,727) |
| Total Other Financing Sources (Uses) | \$ (583,954) | \$ (583,954) | \$ (1,543,988) | \$ (960,034) |
| Net Change in Fund Balance | \$ (46,000) | \$ (46,000) | \$ 699,673 | \$ 745,673 |
| Fund Balance - January 1 | 10,225,844 | 10,225,844 | 10,225,844 | - |
| Increase (decrease) in reserved for inventories | - | - | (2,686) | (2,686) |
| Fund Balance - December 31 | \$ 10,179,844 | \$ 10,179,844 | \$ 10,922,831 | \$ 742,987 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 2

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

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--|----------------------|----------------------|-----------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 5,586,969 | \$ 5,586,969 | \$ 5,563,012 | \$ (23,957) |
| Intergovernmental | 7,201,741 | 7,201,741 | 12,441,312 | 5,239,571 |
| Charges for services | 848,000 | 848,000 | 1,133,068 | 285,068 |
| Miscellaneous | 51,600 | 51,600 | 387,125 | 335,525 |
| Total Revenues | \$ 13,688,310 | \$ 13,688,310 | \$ 19,524,517 | \$ 5,836,207 |
| Expenditures | | | | |
| Current | | | | |
| Highways and streets | | | | |
| Administration | \$ 425,243 | \$ 425,243 | \$ 373,437 | \$ 51,806 |
| Maintenance | 5,853,799 | 5,853,799 | 5,701,449 | 152,350 |
| Construction | 3,993,306 | 3,993,306 | 10,913,894 | (6,920,588) |
| Equipment maintenance and shop | 3,415,962 | 3,415,962 | 3,657,458 | (241,496) |
| Total Expenditures | \$ 13,688,310 | \$ 13,688,310 | \$ 20,646,238 | \$ (6,957,928) |
| Excess of Revenues Over (Under) Expenditures | \$ - | \$ - | \$ (1,121,721) | \$ (1,121,721) |
| Other Financing Sources (Uses) | | | | |
| Transfers in | \$ - | \$ - | \$ 133,549 | \$ 133,549 |
| Transfers out | - | - | (50,000) | (50,000) |
| Total Other Financing Sources (Uses) | \$ - | \$ - | \$ 83,549 | \$ 83,549 |
| Net Change in Fund Balance | \$ - | \$ - | \$ (1,038,172) | \$ (1,038,172) |
| Fund Balance - January 1 | 7,301,293 | 7,301,293 | 7,301,293 | - |
| Increase (decrease) in reserved for inventories | - | - | 68,468 | 68,468 |
| Fund Balance - December 31 | \$ 7,301,293 | \$ 7,301,293 | \$ 6,331,589 | \$ (969,704) |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 3

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

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|----------------------|----------------------|----------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 6,180,452 | \$ 6,180,452 | \$ 5,042,511 | \$ (1,137,941) |
| Intergovernmental | 9,502,873 | 9,502,873 | 9,291,047 | (211,826) |
| Charges for services | 1,433,668 | 1,433,668 | 614,103 | (819,565) |
| Miscellaneous | 290,000 | 290,000 | 639,324 | 349,324 |
| Total Revenues | \$ 17,406,993 | \$ 17,406,993 | \$ 15,586,985 | \$ (1,820,008) |
| Expenditures | | | | |
| Current | | | | |
| Human services | | | | |
| Income maintenance | \$ 4,127,608 | \$ 4,127,608 | \$ 3,876,546 | \$ 251,062 |
| Social services | 11,950,218 | 11,950,218 | 11,094,397 | 855,821 |
| Total human services | \$ 16,077,826 | \$ 16,077,826 | \$ 14,970,943 | \$ 1,106,883 |
| Health | | | | |
| Nursing service | \$ 1,342,952 | \$ 1,342,952 | \$ 1,406,033 | \$ (63,081) |
| Environmental health | 6,215 | 6,215 | 6,186 | 29 |
| Total health | \$ 1,349,167 | \$ 1,349,167 | \$ 1,412,219 | \$ (63,052) |
| Total Expenditures | \$ 17,426,993 | \$ 17,426,993 | \$ 16,383,162 | \$ 1,043,831 |
| Excess of Revenues Over (Under) Expenditures | \$ (20,000) | \$ (20,000) | \$ (796,177) | \$ (776,177) |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 20,000 | 20,000 | 135,221 | 115,221 |
| Net Change in Fund Balance | \$ - | \$ - | \$ (660,956) | \$ (660,956) |
| Fund Balance - January 1 | 2,024,961 | 2,024,961 | 2,024,961 | - |
| Fund Balance - December 31 | \$ 2,024,961 | \$ 2,024,961 | \$ 1,364,005 | \$ (660,956) |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

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

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund; Debt Service Fund; and the Road and Bridge, Health and Human Services, Forest Resources, and Solid Waste Management Special Revenue Funds. Budgets are not adopted for the Unorganized Towns Road and Bridge, Health Education, Severance Pay, and Forfeited Tax Special Revenue Funds. All annual appropriations lapse at fiscal year-end. The County carries reserves over from year to year. The County Board may designate a specific use for some of the fund balances.

In July of each year, all departments and agencies submit requests for appropriations to the County Auditor/Treasurer so that a budget can be prepared. Before September 15, the proposed budget is presented to the County Board for review. A final budget is adopted by the Board and certified to the County Auditor/Treasurer by December 28.

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

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2005, expenditures exceeded appropriations in the following funds:

| | | |
|--------------------------------------|--------------|--|
| General Fund | \$ 1,072,207 | Expenditures for ski and snowmobile trails, several large federal grants in public safety, and Title III project expenditures are not budgeted. These expenditures are offset by intergovernmental revenues. |
| Road and Bridge Special Revenue Fund | 6,957,928 | Higher than anticipated construction expenditures, offset by higher intergovernmental revenues. |

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SUPPLEMENTARY INFORMATION

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

The Forest Resources Special Revenue Fund is used to account for the operations of the County forests and the Boundary Waters Canoe Area, as well as payments from the state in lieu of taxes.

The Solid Waste Management Special Revenue Fund is used to account for the operations and maintenance of all solid waste transfer stations.

The Unorganized Towns Road and Bridge Special Revenue Fund is used to account for all funds to be used for construction and maintenance of highways and roads in unorganized townships.

The Health Education Special Revenue Fund is used to account for all funds used to enhance the health and cost-effectiveness of health care for the residents of Itasca County.

The Severance Pay Special Revenue Fund is used to account for severance pay activity not accounted for in other funds.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of principal, interest, and the related costs of general obligation bonds.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Statement 1

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

| | Special Revenue (Statement 3) | Debt Service | Capital Projects | Total Nonmajor Governmental Funds |
|---|--|-------------------------|-----------------------------|--|
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 5,035,913 | \$ 1,742,761 | \$ 5,672,084 | \$ 12,450,758 |
| Petty cash and change funds | 325 | - | - | 325 |
| Undistributed cash in agency funds | 76,389 | 70,946 | - | 147,335 |
| Taxes receivable | | | | |
| Prior | 21,595 | 38,416 | - | 60,011 |
| Special assessments receivable | | | | |
| Prior | 128,965 | - | - | 128,965 |
| Accounts receivable | 64,445 | - | 7,481 | 71,926 |
| Due from other funds | 2,914,221 | - | - | 2,914,221 |
| Due from other governments | 10 | - | 281 | 291 |
| Loans receivable | - | - | 117,000 | 117,000 |
| | \$ 8,241,863 | \$ 1,852,123 | \$ 5,796,846 | \$ 15,890,832 |
| <u>Liabilities and Fund Balances</u> | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 127,524 | \$ - | \$ 138,969 | \$ 266,493 |
| Severance payable | 72,804 | - | - | 72,804 |
| Salaries payable | 38,995 | - | - | 38,995 |
| Due to other funds | 469,965 | - | - | 469,965 |
| Due to other governments | - | - | - | - |
| Deferred revenue - unavailable | 150,560 | 38,416 | 117,000 | 305,976 |
| | \$ 859,848 | \$ 38,416 | \$ 255,969 | \$ 1,154,233 |
| Fund Balances | | | | |
| Reserved for | | | | |
| Recorder's equipment purchases | \$ - | \$ - | \$ 51,444 | \$ 51,444 |
| County property recorder's fee | - | - | 72,996 | 72,996 |
| Unreserved | | | | |
| Designated for debt service | - | 1,813,707 | - | 1,813,707 |
| Designated for severance | 155,889 | - | - | 155,889 |
| Undesignated | 7,226,126 | - | 5,416,437 | 12,642,563 |
| | \$ 7,382,015 | \$ 1,813,707 | \$ 5,540,877 | \$ 14,736,599 |
| Total Liabilities and Fund Balances | \$ 8,241,863 | \$ 1,852,123 | \$ 5,796,846 | \$ 15,890,832 |

**ITASCA COUNTY
GRAND RAPIDS, 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 | Capital Projects | Total Nonmajor Governmental Funds |
|---|-------------------------------------|---------------------|---------------------|--|
| Revenues | | | | |
| Taxes | \$ 797,385 | \$ 1,237,076 | \$ - | \$ 2,034,461 |
| Special assessments | 909,261 | - | - | 909,261 |
| Licenses and permits | 50 | - | - | 50 |
| Intergovernmental | 492,697 | 274,366 | - | 767,063 |
| Charges for services | 498,559 | - | 149,140 | 647,699 |
| Investment earnings | 30,648 | - | - | 30,648 |
| Miscellaneous | 201,800 | - | 28,416 | 230,216 |
| Total Revenues | \$ 2,930,400 | \$ 1,511,442 | \$ 177,556 | \$ 4,619,398 |
| Expenditures | | | | |
| Current | | | | |
| General government | \$ 324,175 | \$ - | \$ 364,091 | \$ 688,266 |
| Public safety | 333,088 | - | 472,686 | 805,774 |
| Highways and streets | 1,083,784 | - | - | 1,083,784 |
| Sanitation | 1,425,498 | - | 185,679 | 1,611,177 |
| Culture and recreation | 394,035 | - | - | 394,035 |
| Conservation of natural resources | 1,036,854 | - | - | 1,036,854 |
| Debt service | | | | |
| Principal | - | 1,090,000 | - | 1,090,000 |
| Interest | - | 340,328 | - | 340,328 |
| Administrative (fiscal) charges | - | 1,093 | - | 1,093 |
| Total Expenditures | \$ 4,597,434 | \$ 1,431,421 | \$ 1,022,456 | \$ 7,051,311 |
| Excess of Revenues Over (Under) Expenditures | \$ (1,667,034) | \$ 80,021 | \$ (844,900) | \$ (2,431,913) |
| Other Financing Sources (Uses) | | | | |
| Transfers in | \$ 2,707,295 | \$ - | \$ 1,699,552 | \$ 4,406,847 |
| Transfers out | (80,831) | - | (157,032) | (237,863) |
| Total Other Financing Sources (Uses) | \$ 2,626,464 | \$ - | \$ 1,542,520 | \$ 4,168,984 |
| Net Change in Fund Balance | \$ 959,430 | \$ 80,021 | \$ 697,620 | \$ 1,737,071 |
| Fund Balance - January 1 | 6,422,585 | 1,733,686 | 4,843,257 | 12,999,528 |
| Fund Balance - December 31 | \$ 7,382,015 | \$ 1,813,707 | \$ 5,540,877 | \$ 14,736,599 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Statement 3

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

| | <u>Forest Resources</u> | <u>Solid Waste Management</u> | <u>Unorganized Towns Road and Bridge</u> | <u>Health Education</u> | <u>Severance Pay</u> | <u>Total</u> |
|--|-----------------------------|-----------------------------------|--|-----------------------------|--------------------------|---------------------|
| <u>Assets</u> | | | | | | |
| Cash and pooled investments | \$ 1,241,277 | \$ 466,139 | \$ 2,156,637 | \$ 1,002,000 | \$ 169,860 | \$ 5,035,913 |
| Petty cash and change funds | 25 | 300 | - | - | - | 325 |
| Undistributed cash in agency funds | - | 26,934 | 49,455 | - | - | 76,389 |
| Taxes receivable | | | | | | |
| Prior | - | - | 21,595 | - | - | 21,595 |
| Special assessments receivable | | | | | | |
| Prior | - | 128,965 | - | - | - | 128,965 |
| Accounts receivable | - | 5,612 | - | - | 58,833 | 64,445 |
| Due from other funds | 2,726,302 | - | 187,919 | - | - | 2,914,221 |
| Due from other governments | - | 10 | - | - | - | 10 |
| Total Assets | \$ 3,967,604 | \$ 627,960 | \$ 2,415,606 | \$ 1,002,000 | \$ 228,693 | \$ 8,241,863 |
| <u>Liabilities and Fund Balances</u> | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 23,205 | \$ 104,319 | \$ - | \$ - | \$ - | \$ 127,524 |
| Severance payable | - | - | - | - | 72,804 | 72,804 |
| Salaries payable | 37,183 | 1,812 | - | - | - | 38,995 |
| Due to other funds | - | - | 469,965 | - | - | 469,965 |
| Deferred revenue - unavailable | - | 128,965 | 21,595 | - | - | 150,560 |
| Total Liabilities | \$ 60,388 | \$ 235,096 | \$ 491,560 | \$ - | \$ 72,804 | \$ 859,848 |
| Fund Balances | | | | | | |
| Unreserved | | | | | | |
| Designated for severance | \$ - | \$ - | \$ - | \$ - | \$ 155,889 | \$ 155,889 |
| Undesignated | 3,907,216 | 392,864 | 1,924,046 | 1,002,000 | - | 7,226,126 |
| Total Fund Balances | \$ 3,907,216 | \$ 392,864 | \$ 1,924,046 | \$ 1,002,000 | \$ 155,889 | \$ 7,382,015 |
| Total Liabilities and Fund Balances | \$ 3,967,604 | \$ 627,960 | \$ 2,415,606 | \$ 1,002,000 | \$ 228,693 | \$ 8,241,863 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Statement 4

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

| | <u>Forest Resources</u> | <u>Solid Waste Management</u> | <u>Unorganized Towns Road and Bridge</u> | <u>Health Education</u> | <u>Severance Pay</u> | <u>Total</u> |
|---|-----------------------------|-----------------------------------|--|-----------------------------|--------------------------|-----------------------|
| Revenues | | | | | | |
| Taxes | \$ - | \$ 63 | \$ 797,322 | \$ - | \$ - | \$ 797,385 |
| Special assessments | - | 909,261 | - | - | - | 909,261 |
| Licenses and permits | - | 50 | - | - | - | 50 |
| Intergovernmental | 186,703 | 99,749 | 206,245 | - | - | 492,697 |
| Charges for services | 15,704 | 482,855 | - | - | - | 498,559 |
| Investment earnings | - | - | - | 30,648 | - | 30,648 |
| Miscellaneous | 186,948 | 14,852 | - | - | - | 201,800 |
| Total Revenues | \$ 389,355 | \$ 1,506,830 | \$ 1,003,567 | \$ 30,648 | \$ - | \$ 2,930,400 |
| Expenditures | | | | | | |
| Current | | | | | | |
| General government | \$ - | \$ - | \$ - | \$ - | \$ 324,175 | \$ 324,175 |
| Public safety | - | - | - | - | 333,088 | 333,088 |
| Highways and streets | - | - | 740,356 | - | 343,428 | 1,083,784 |
| Sanitation | - | 1,425,498 | - | - | - | 1,425,498 |
| Culture and recreation | 394,035 | - | - | - | - | 394,035 |
| Conservation of natural resources | 968,214 | - | - | - | 68,640 | 1,036,854 |
| Total Expenditures | \$ 1,362,249 | \$ 1,425,498 | \$ 740,356 | \$ - | \$ 1,069,331 | \$ 4,597,434 |
| Excess of Revenues Over (Under) Expenditures | \$ (972,894) | \$ 81,332 | \$ 263,211 | \$ 30,648 | \$ (1,069,331) | \$ (1,667,034) |
| Other Financing Sources (Uses) | | | | | | |
| Transfers in | \$ 1,523,154 | \$ - | \$ 187,919 | \$ - | \$ 996,222 | \$ 2,707,295 |
| Transfers out | (48,183) | - | - | (32,648) | - | (80,831) |
| Total Other Financing Sources (Uses) | \$ 1,474,971 | \$ - | \$ 187,919 | \$ (32,648) | \$ 996,222 | \$ 2,626,464 |
| Net Change in Fund Balance | \$ 502,077 | \$ 81,332 | \$ 451,130 | \$ (2,000) | \$ (73,109) | \$ 959,430 |
| Fund Balance - January 1 | 3,405,139 | 311,532 | 1,472,916 | 1,004,000 | 228,998 | 6,422,585 |
| Fund Balance - December 31 | \$ 3,907,216 | \$ 392,864 | \$ 1,924,046 | \$ 1,002,000 | \$ 155,889 | \$ 7,382,015 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 4

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

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|-----------------------|-----------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental | \$ 178,308 | \$ 178,308 | \$ 186,703 | \$ 8,395 |
| Charges for services | 71,500 | 71,500 | 15,704 | (55,796) |
| Miscellaneous | 2,000 | 2,000 | 186,948 | 184,948 |
| Total Revenues | \$ 251,808 | \$ 251,808 | \$ 389,355 | \$ 137,547 |
| Expenditures | | | | |
| Current | | | | |
| Culture and recreation | | | | |
| Promotion | \$ 110,000 | \$ 110,000 | \$ 118,750 | \$ (8,750) |
| Parks | 281,389 | 281,389 | 275,285 | 6,104 |
| Total culture and recreation | \$ 391,389 | \$ 391,389 | \$ 394,035 | \$ (2,646) |
| Conservation of natural resources | | | | |
| Timber development | \$ 52,250 | \$ 52,250 | \$ 132,504 | \$ (80,254) |
| Other | 1,555,310 | 1,555,310 | 835,710 | 719,600 |
| Total conservation of natural resources | \$ 1,607,560 | \$ 1,607,560 | \$ 968,214 | \$ 639,346 |
| Total Expenditures | \$ 1,998,949 | \$ 1,998,949 | \$ 1,362,249 | \$ 636,700 |
| Excess of Revenues Over (Under) Expenditures | \$ (1,747,141) | \$ (1,747,141) | \$ (972,894) | \$ 774,247 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | \$ 1,747,141 | \$ 1,747,141 | \$ 1,523,154 | \$ (223,987) |
| Transfers out | - | - | (48,183) | (48,183) |
| Total Other Financing Sources (Uses) | \$ 1,747,141 | \$ 1,747,141 | \$ 1,474,971 | \$ (272,170) |
| Net Change in Fund Balance | \$ - | \$ - | \$ 502,077 | \$ 502,077 |
| Fund Balance - January 1 | 3,405,139 | 3,405,139 | 3,405,139 | - |
| Fund Balance - December 31 | \$ 3,405,139 | \$ 3,405,139 | \$ 3,907,216 | \$ 502,077 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 5

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

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ - | \$ - | \$ 63 | \$ 63 |
| Special assessments | 880,755 | 880,755 | 909,261 | 28,506 |
| Licenses and permits | 150 | 150 | 50 | (100) |
| Intergovernmental | 103,000 | 103,000 | 99,749 | (3,251) |
| Charges for services | 440,000 | 440,000 | 482,855 | 42,855 |
| Miscellaneous | 5,549 | 5,549 | 14,852 | 9,303 |
| Total Revenues | \$ 1,429,454 | \$ 1,429,454 | \$ 1,506,830 | \$ 77,376 |
| Expenditures | | | | |
| Current | | | | |
| Sanitation | | | | |
| Solid waste | 1,429,454 | 1,429,454 | 1,425,498 | 3,956 |
| Excess of Revenues Over (Under) Expenditures | \$ - | \$ - | \$ 81,332 | \$ 81,332 |
| Fund Balance - January 1 | 311,532 | 311,532 | 311,532 | - |
| Fund Balance - December 31 | \$ 311,532 | \$ 311,532 | \$ 392,864 | \$ 81,332 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 6

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

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 1,447,603 | \$ 1,447,603 | \$ 1,237,076 | \$ (210,527) |
| Intergovernmental | - | - | 274,366 | 274,366 |
| Total Revenues | \$ 1,447,603 | \$ 1,447,603 | \$ 1,511,442 | \$ 63,839 |
| Expenditures | | | | |
| Debt service | | | | |
| Principal | \$ 1,090,000 | \$ 1,090,000 | \$ 1,090,000 | \$ - |
| Interest | 357,603 | 357,603 | 340,328 | 17,275 |
| Administrative (fiscal) charges | - | - | 1,093 | (1,093) |
| Total Expenditures | \$ 1,447,603 | \$ 1,447,603 | \$ 1,431,421 | \$ 16,182 |
| Excess of Revenues Over (Under) Expenditures | \$ - | \$ - | \$ 80,021 | \$ 80,021 |
| Fund Balance - January 1 | 1,733,686 | 1,733,686 | 1,733,686 | - |
| Fund Balance - December 31 | \$ 1,733,686 | \$ 1,733,686 | \$ 1,813,707 | \$ 80,021 |

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FIDUCIARY FUNDS

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

AGENCY FUNDS

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

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Statement 5

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

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|------------------------------------|------------------------------|----------------------|----------------------|--------------------------------|
| <u>TAXES AND PENALTIES</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 1,476,997 | \$ 54,590,084 | \$ 54,499,535 | \$ 1,567,546 |
| <u>Liabilities</u> | | | | |
| Taxes collected in advance | \$ 16,326 | \$ 19,053 | \$ 16,326 | \$ 19,053 |
| Due to other governments | 1,460,671 | 54,571,031 | 54,483,209 | 1,548,493 |
| Total Liabilities | \$ 1,476,997 | \$ 54,590,084 | \$ 54,499,535 | \$ 1,567,546 |
| <u>STATE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 144,712 | \$ 7,968,749 | \$ 7,938,433 | \$ 175,028 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 144,712 | \$ 7,968,749 | \$ 7,938,433 | \$ 175,028 |
| <u>CITIES AND TOWNS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 33 | \$ 13,187,457 | \$ 13,187,490 | \$ - |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 33 | \$ 13,187,457 | \$ 13,187,490 | \$ - |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

*Statement 5
(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>SCHOOL DISTRICTS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 242,152 | \$ 10,709,344 | \$ 10,951,496 | \$ - |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 242,152 | \$ 10,709,344 | \$ 10,951,496 | \$ - |
| <u>SPECIAL DISTRICTS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ - | \$ 1,395,901 | \$ 1,380,386 | \$ 15,515 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ - | \$ 1,395,901 | \$ 1,380,386 | \$ 15,515 |
| <u>ITASCA COUNTY FAMILY SERVICE COLLABORATIVE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 450,209 | \$ 357,514 | \$ 397,578 | \$ 410,145 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 450,209 | \$ 357,514 | \$ 397,578 | \$ 410,145 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

*Statement 5
(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>COMMUNITY HEALTH SERVICES</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 101,925 | \$ 1,235,559 | \$ 1,199,336 | \$ 138,148 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 101,925 | \$ 1,235,559 | \$ 1,199,336 | \$ 138,148 |
| <u>SOUTH CENTRAL ITASCA COUNTY PLANNING BOARD</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 37,834 | \$ 7,533 | \$ 24,712 | \$ 20,655 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 37,834 | \$ 7,533 | \$ 24,712 | \$ 20,655 |
| <u>TOTAL ALL AGENCY FUNDS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 2,453,862 | \$ 89,452,141 | \$ 89,578,966 | \$ 2,327,037 |
| <u>Liabilities</u> | | | | |
| Taxes collected in advance | \$ 16,326 | \$ 19,053 | \$ 16,326 | \$ 19,053 |
| Due to other governments | 2,437,536 | 89,433,088 | 89,562,640 | 2,307,984 |
| Total Liabilities | \$ 2,453,862 | \$ 89,452,141 | \$ 89,578,966 | \$ 2,327,037 |

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OTHER SCHEDULE

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 7

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

| | <u>Governmental Funds</u> | <u>Enterprise Funds</u> | <u>Total Primary Government</u> |
|--|-------------------------------|-----------------------------|-------------------------------------|
| Shared Revenue | | | |
| State | | | |
| Highway users tax | \$ 7,310,936 | \$ - | \$ 7,310,936 |
| County program aid | 1,937,034 | - | 1,937,034 |
| PERA rate reimbursement | 82,819 | - | 82,819 |
| Disparity reduction aid | 163,220 | - | 163,220 |
| Police aid | 347,319 | - | 347,319 |
| Taconite credit | 568,265 | - | 568,265 |
| Mobile home taconite credit | 2,082 | - | 2,082 |
| E-911 | 39,880 | - | 39,880 |
| Market value credit aid | 1,966,692 | - | 1,966,692 |
| Supplemental aid | 1,604,087 | - | 1,604,087 |
| Casino revenue aid | 32,074 | - | 32,074 |
| Total Shared Revenue | \$ 14,054,408 | \$ - | \$ 14,054,408 |
| Reimbursement for Services | | | |
| Minnesota Department of Human Services | \$ 3,574,944 | \$ - | \$ 3,574,944 |
| Payments | | | |
| Local | | | |
| Local contributions | \$ 108,566 | \$ - | \$ 108,566 |
| Payments in lieu of taxes | 502,636 | - | 502,636 |
| Total Payments | \$ 611,202 | \$ - | \$ 611,202 |
| Grants | | | |
| State | | | |
| Minnesota Department of Administration | \$ 405,404 | \$ - | \$ 405,404 |
| Corrections | 247,075 | - | 247,075 |
| Public safety | 27,025 | - | 27,025 |
| Health | 160,024 | - | 160,024 |
| Natural Resources | 353,702 | - | 353,702 |
| Human Services | 3,374,902 | 18,192 | 3,393,094 |
| Office of Environmental Assistance | 99,749 | - | 99,749 |
| Total State | \$ 4,667,881 | \$ 18,192 | \$ 4,686,073 |
| Federal | | | |
| Department of Agriculture | \$ 488,018 | \$ - | \$ 488,018 |
| Interior | 215,413 | - | 215,413 |
| Justice | 442,291 | - | 442,291 |
| Transportation | 3,240,049 | - | 3,240,049 |
| Health and Human Services | 1,092,091 | - | 1,092,091 |
| Homeland Security | 60,229 | - | 60,229 |
| Total Federal | \$ 5,538,091 | \$ - | \$ 5,538,091 |
| Total State and Federal Grants | \$ 10,205,972 | \$ 18,192 | \$ 10,224,164 |
| Total Intergovernmental Revenue | \$ 28,446,526 | \$ 18,192 | \$ 28,464,718 |

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 8

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 basic financial statements of Itasca County.
- B. A reportable condition in internal control was disclosed by the audit of financial statements of Itasca County and is reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." It was not a material weakness.
- C. No instances of noncompliance material to the financial statements of Itasca County were disclosed during the audit.
- D. A reportable condition relating to the audit of the major federal award programs is 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." It was not a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for Itasca County expresses a qualified opinion.
- F. A finding relative to a major federal award program for Itasca County was reported as required by Section 510(a) of Office of Management and Budget (OMB) Circular A-133.
- G. The major programs are:
- | | |
|--------------------------------------|--------------|
| Grants to Encourage Arrest Policies | CFDA #16.590 |
| Highway Planning and Construction | CFDA #20.205 |
| Social Services Block Grant Title XX | CFDA #93.667 |
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Itasca County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-5 Departmental Internal Accounting Controls

Due to the limited number of office personnel within the various County departments, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Although this is not unusual in operations the size of Itasca County, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal accounting control point of view.

We recommend that Itasca County's management be aware of the absence of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff.

Client's Response:

The County's administration is aware of the lack of segregation of accounting functions, which is due to understaffing and maintains constant oversight procedures.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

A. COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Time Records Federal Arrest Grant (CFDA #16.590)

Questioned Costs: \$26,113

In our audit for the year ended December 31, 2004, we noted the County Attorney's Office was not keeping time records to support time charged to the Federal Arrest Grant. The County had requested reimbursement from the Federal Arrest Grant for two County Attorney's Office staff working on the grant. The

amount charged to the grant was 75 percent of one attorney's salary and 25 percent of the other attorney's salary. There were no time records to support these charges.

OMB Circular A-87 applies to this grant. This circular sets forth standards for documentation of charges to federal awards for salaries and wages. It requires that, in instances where employees work on multiple activities or cost objectives, a distribution of their salaries or wages be supported by personnel activity reports. These reports should be prepared after the fact, account for the total activity of the employee, be prepared at least monthly, and be signed by the employee. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards.

In our prior audit, we reported known questioned costs of \$15,560 from the transactions that we tested, and likely questioned costs of \$77,098 for the total amount charged by the Attorney's Office to this grant in 2004. The County has not received a resolution of these questioned costs from the federal grantor, the Department of Justice. Therefore, these questioned costs remain outstanding.

In the current audit, this situation continued for the first eight months of the year. Beginning September 1, 2005, the County Attorney's Office began keeping time records for each attorney working on this grant.

In the current audit, we tested ten transactions relating to the County Attorney's Office salaries. Five of the transactions were from the period prior to September 1, 2005, and had no time records to support the time charged. Five of the transactions were for the period after September 1, 2005, and had adequate time records documenting the time charged to the grant. From the transactions we tested, the total amount of known questioned costs for attorneys' salaries charged to this grant is \$10,553. The total amount of attorneys' salaries charged to the grant for the period January to August 2005 was \$51,543. We have no reason to believe that the untested transactions relating to attorneys' salaries were conducted differently than the transactions tested.

We recommend the County Attorney's Office staff working on this grant continue to document the time spent on the grant to support reimbursement requests. Resolution of the questioned costs should be obtained from the federal grantor agency, the Department of Justice.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

John Muhar, Itasca County Attorney

Corrective Action Planned:

Effective September 1, 2005, the attorneys in our office who provide services under the grant shall keep a time record of the time which they spend relative to activities under the grant. The record will identify the matter, date, type, and amount of time spent.

Anticipated Completion Date:

September 1, 2005

PREVIOUSLY REPORTED ITEM RESOLVED

**Building Occupancy Charges Federal Arrest Grant - CFDA #16.590
(04-2)**

The Advocates for Family Peace are a subgrantee of the County under the Federal Arrest Grant. The Advocates were charging the grant for expenditures relating to the occupancy of a building owned by the Advocates based on budgeted costs rather than actual costs.

The Office of Justice Programs Financial Guide, page 72, indicates that the cost of ownership of a building is an allowable expenditure. However, such charges must be determined on the basis of actual costs.

Resolution

The Advocates determined the actual cost of building occupancy at the end of their fiscal year, which is June 30. We were provided with the actual costs for the periods ending June 30, 2005 and 2006, to determine that the amounts charged as building occupancy expenses for the calendar years 2004 and 2005 were supported by actual costs.

B. INTERNAL CONTROL

ITEM ARISING THIS YEAR

05-1 Subrecipient Monitoring - Federal Arrest Grant (CFDA #16.590)

Itasca County is the grantee for the Federal Arrest Grant. A portion of this grant is passed through to the Advocates for Family Peace, a nonprofit organization. As the grantee, Itasca County is responsible for monitoring the activities of subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

The County accountant reviews the documentation for expenditures submitted by the Advocates for Family Peace with their requests for reimbursement. However, very little other monitoring is done of this subrecipient.

We recommend the County Auditor assign responsibility for monitoring this subrecipient. Monitoring activities should include:

- advising subrecipients of the requirements imposed on them by federal laws, regulations, and the provisions of grant agreements;
- monitoring the subrecipient's use of federal awards through reporting;
- performing site visits to review that accounting systems and internal controls systems are adequate to administer the award;
- maintaining regular contact with the subrecipient as necessary to assess risks related to the subrecipient such as financial problems, loss of essential personnel, new programs, etc.; and
- monitoring through inquiry and discussion with subrecipient whether the threshold requiring an audit under OMB Circular A-133 was met; if an audit is required, monitoring whether the required audits have been obtained; and performing follow up on any audit findings.

Corrective Action Plan:

Name of Person Responsible for Correction Action:

Jay Kolar, Itasca County Auditor

Corrective Action Planned:

The County Auditor is assigning the responsibility for monitoring the subrecipient for the items listed above to the Chief Accountant.

Anticipated Completion Date:

November 2006

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

00-1 Delinquent Taxes

The County accepts partial payments on delinquent taxes. While Minnesota statutes allow partial payments for late taxes, the Minnesota Department of Revenue has ruled that delinquent taxes must be paid in total or paid by entire year.

We recommend that the County comply with this rule.

Client's Response:

This office will continue to receive partial payment on delinquent taxes. This is a service to the people. It has helped many individuals resolve a difficult problem. We will continue asking the Auditor Association to introduce legislation to resolve this question.

04-3

Bidding

In our 2004 audit we noted the County Sheriff's Department purchased three squad cars for a total of \$60,492 without advertising for sealed bids as required by Minn. Stat. § 471.345.

In 2005, the Road and Bridge Department purchased an asphalt zipper for \$91,537 and cutting edges for \$56,884 without advertising for sealed bids as required by Minn. Stat. § 471.345. This statute requires that all contracts estimated to exceed \$50,000 be solicited by public notice.

The asphalt zipper is a unique piece of equipment and County Road and Bridge personnel felt that the sole source exception of Minn. Stat. § 471.36 applied to this purchase. However, the sole source exception to the statutes under Minn. Stat. § 471.36 exempts the County only from the requirements of Minn. Stat. § 471.35 which requires that specifications shall not be prepared as to exclude all but one type of equipment. It does not exempt the County from soliciting bids.

The cutting edges were for two different types of blades--summer blades and winter blades. However, all of the blades were ordered and received at the same time, therefore, the total purchase constituted a contract and should have been advertised by sealed bids.

We recommend the County advertise for sealed bids whenever a contract is estimated to exceed \$50,000.

Client's Response:

If we are going to be purchasing anything over \$50,000 at any one given point in time, we will go by the sealed bid process as outlined in the Minnesota statute. If we are going to purchase anything under \$50,000, we will follow the quote process as we normally do.

ITEMS ARISING THIS YEAR

05-2 Prompt Payment of Invoices

Minn. Stat. § 471.425 requires the County to make payment on vendor invoices according to the terms of the contract or within 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later. Five of 25 vouchers we tested during our audit were not paid within the 35-day time period required by the statute.

We recommend the County Auditor make payments on vendor invoices in accordance with Minn. Stat. § 471.425.

Client's Response:

We are now paying commissioner warrants twice a month rather than once a month. We hope this will resolve the issue.

05-3 Collateral to Secure Deposits

Minn. Stat. § 118A.03 requires governmental entities to obtain collateral to secure deposits to the extent that funds on deposit exceed available federal deposit insurance at the close of the financial institution's banking day. The market value of the collateral should be at least ten percent more than the uninsured amount on deposit.

At December 31, 2005, the County had deposits at the First National Bank of Coleraine that were not adequately covered by collateral. The amount of collateral required was \$362,174 more than the amount of collateral pledged.

We recommend the County Auditor monitor all County deposits to determine that adequate collateral has been pledged to secure deposits in accordance with Minn. Stat. § 118A.03.

Client's Response:

Employee understands the procedure to verify all CD purchases and to list the bank. Corrections were made and controls will be enforced.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM RESOLVED

Operating Loss (01-4)

The Itasca Resource Center Enterprise Fund had a net operating loss of \$55,275 for the year ended December 31, 2004. We recommended that space rental rates be set high enough to recover operating expenses, including depreciation.

Resolution

In 2005, the Itasca Resource Center Enterprise Fund continued to have an operating loss of \$69,009. However, County Health and Human Services Department personnel have evaluated this issue and have determined that it is not feasible to raise rents in an amount that would recover all operating expenses, including depreciation. Government accounting standards permit the use of an enterprise fund to report any activity for which a fee is charged to external users for goods or services regardless of whether the government intends to fully recover the cost of the goods or services provided.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

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

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

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

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

OTHER REQUIRED REPORTS

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OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Itasca 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 Itasca County as of and for the year ended December 31, 2005, and have issued our report thereon dated September 14, 2006. The financial statements include the Nursing Home Enterprise Fund as of and for the year ended September 30, 2005. We did not audit the financial statements of the Itasca Medical Care Enterprise Fund, which were audited by other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Itasca County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operations 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 96-5.

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Itasca County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 00-1, 04-3, 05-2, and 05-3.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: September 14, 2006



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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Itasca County

Compliance

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

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

As described in item 04-1 in the accompanying Schedule of Findings and Questioned Costs, Itasca County did not comply with requirements regarding allowable costs/cost principles applicable to its Grants to Encourage Arrest Policies (CFDA #16.590) major federal program. Compliance with such requirements is necessary, in our opinion, for Itasca County to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Itasca County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of Itasca 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 internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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. Our consideration of the internal control over compliance 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 do not believe the reportable condition indicated above is a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Itasca County as of and for the year ended December 31, 2005, and have issued our report thereon dated September 14, 2006. Our audit was performed for the purpose of forming opinions on the

financial statements that collectively comprise the County's basic financial statements. We did not audit the financial statements of the Itasca Medical Care Enterprise Fund, which were audited by other auditors. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Pat Anderson

/s/Greg Hierlinger

PATRICIA ANDERSON
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: September 14, 2006

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 9

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

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Pass-Through Grant Number | Expenditures | Passed Through to Subrecipients |
|---|------------------------------------|--|---------------------|--|
| U.S. Department of Agriculture | | | | |
| Passed Through Aitkin-Itasca-Koochiching Community Health Services Board Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | 12-700-00053 A73043 | \$ 152,866 | \$ - |
| Passed Through Minnesota Department of Finance National Forest Lands Roads/Schools - 25% Payments to States | 10.665 | | 335,152 | - |
| Total U.S. Department of Agriculture | | | \$ 488,018 | \$ - |
| U.S. Department of the Interior | | | | |
| Direct Payments in Lieu of Taxes | 15.226 | | \$ 215,413 | \$ - |
| U.S. Department of Justice | | | | |
| Passed Through Minnesota Department of Public Safety Victims of Crime Act | 16.575 | | \$ 9,182 | \$ - |
| Direct Supervised Visitation, Safe Havens for Children | 16.527 | | 169,918 | 169,918 |
| Grants to Encourage Arrest Policies | 16.590 | | 263,191 | 127,421 |
| Total U.S. Department of Justice | | | \$ 442,291 | \$ 297,339 |
| U.S. Department of Transportation | | | | |
| Passed Through Minnesota Department of Transportation Highway Planning and Construction | 20.205 | 31-629-14 31-663-15 31-663-17 | \$ 2,741,219 | \$ - |
| Recreational Trails Program | 20.219 | 31-090-03 31-663-20 | 314,728 | - |
| State and Community Highway Safety | 20.600 | | 4,281 | - |
| Total U.S. Department of Transportation | | | \$ 3,060,228 | \$ - |
| U.S. Department of Health and Human Services | | | | |
| Passed Through Aitkin-Itasca-Koochiching Community Health Services Board Immunization Grants | 93.268 | | \$ 2,550 | \$ - |
| Disease Control and Prevention Investigation | 93.283 | | 72,746 | - |
| Maternal and Child Health | 93.994 | | 77,222 | - |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 9
(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 | Pass-Through Grant Number | Expenditures | Passed Through to Subrecipients |
|---|------------------------------------|--|---------------------|--|
| U.S. Department of Health and Human Services (Continued) | | | | |
| Passed Through Minnesota Department of Human Services | | | | |
| Family Preservation - Title IV-B | 93.556 | | 23,972 | - |
| Temporary Assistance for Needy Families (TANF) | 93.558 | | 474,926 | - |
| Child Welfare Services - State Grants | 93.645 | | 675 | - |
| Foster Care | 93.658 | | 28,669 | - |
| Social Services Block Grant Title XX | 93.667 | | 326,477 | - |
| Support for Emancipation and Living Functionally Assistance Programs for Chronic Disease Prevention and Control | 93.674 | | 15,475 | - |
| Coordinated Care Planning Grant | 93.945 | | 2,331 | - |
| | 93.958 | | 38,080 | - |
| Passed Through Minnesota Department of Education | | | | |
| Child Care Mandatory and Matching Funds | 93.596 | | 28,968 | - |
| Total U.S. Department of Health and Human Services | | | \$ 1,092,091 | \$ - |
| U.S. Department of Homeland Security | | | | |
| Passed Through Minnesota Department of Public Safety | | | | |
| State Domestic Preparedness Equipment Grant | 97.004 | 2000-9936 | \$ 30,088 | \$ - |
| Emergency Management Performance Grant | 97.042 | 2000-10295 | 20,141 | - |
| Passed Through Minnesota Department of Natural Resources | | | | |
| Boating Safety Financial Assistance | 97.012 | A73755 | 10,000 | - |
| Total U.S. Department of Homeland Security | | | \$ 60,229 | \$ - |
| Total Federal Awards | | | \$ 5,358,270 | \$ 297,339 |

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 Itasca County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Due to timing differences in revenue recognition under the modified accrual basis, expenditures on this schedule do not equal federal revenues reported in the financial statements. In 2005, \$268,673 of prior year federal expenditures were recognized as revenues in the financial statements, and \$88,852 of current year federal expenditures were not recognized as revenues because they were not received within the period of availability.
3. Pass-through grant numbers are presented for grants for which they have been assigned.