

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

ISANTI COUNTY
CAMBRIDGE, MINNESOTA

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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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Year Ended December 31, 2005



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

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2005

			<u>Term Expires</u>
Elected			
Commissioners			
Board Member	George I. Larson	District 1	January 2007
Board Member	Larry L. Southerland	District 2	January 2009
Chair	Tom Pagel	District 3	January 2009
Board Member	Kurt Daudt	District 4	January 2009
Vice Chair	Glenn E. Johnson	District 5	January 2007
Attorney	Jeffrey Edblad		January 2007
Auditor	Terry F. Treichel		January 2007
Coroner	Donald Deye, M.D.		January 2007
County Recorder	Karen D. Anderson		January 2007
Registrar of Titles	Karen D. Anderson		January 2007
County Sheriff	Mike Ammend		January 2007
Treasurer	Lyle Myren		January 2007
Appointed			
Assessor	Curtis Becker		December 2008
Court Administrator	Sue LaBore		Indefinite
Highway Engineer	Richard Heilman		April 2006
Probation Officer	Joseph W. Hancuch		Indefinite
Surveyor	Don E. Hansen		February 2007
Veterans Service Officer	James Rostberg		February 2006
Human Services Director	Kevin S. VanHooser		Indefinite
County Coordinator	Jerry Tvedt		Indefinite

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Isanti County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Isanti County, Minnesota, as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Isanti County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Isanti County as of December 31, 2005 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Isanti 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 presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2006, on our consideration of Isanti County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

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

Isanti 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 financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$56,932,698, of which \$41,877,033 is invested in capital assets, net of related debt; \$2,028,957 of the total governmental activities net assets are restricted for specific uses.
- Isanti County's net assets increased by \$3,407,725 for the year ended December 31, 2005.
- The net cost of governmental activities was \$11,148,893 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$14,556,618.
- Governmental fund balances increased by \$241,049. Most of the increase was due to departmental expenditure reductions.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Management's Discussion and Analysis
(Required Supplementary Information)

Government-Wide Financial Statements (pages 14 through 17)	↔	Fund Financial Statements (pages 18 through 26)
Notes to the Financial Statements (pages 27 through 54)		

Required Supplementary Information
(other than MD&A)
(pages 55 through 60)

There are two government-wide financial statements. The Statement of Net Assets and the Statement of Activities (Exhibits 1 and 2) 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 start with Exhibit 3. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. 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 government-wide financial statements are designed to provide readers with a broad overview of Isanti County's finances in a manner similar to a private-sector business.

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 net assets. 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, the County has only 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 federal grants finance most of these activities.

The government-wide financial statements include not only Isanti County (known as the primary government), but also a legally separate entity known as Green Lake Improvement District, for which Isanti County is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

Fund Financial Statements

The analysis of the County's major funds begins with Exhibit 3. 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. All of the funds of Isanti County can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds--Most of the County's basic services are reported in governmental funds, which focus on near-term inflows and outflows of spendable resources, as well as on 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 financial 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 following each governmental fund financial statement.

Within the governmental funds, Isanti County maintains four fund types: General, Special Revenue, Debt Service, and Capital Projects. Information is presented separately in the governmental fund balance sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the major funds. Major funds include: General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Debt Service Fund, and Capital Projects Fund. Data from the other three special revenue nonmajor funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds may be found on pages 61-62 of this report.

Isanti County adopts an annual budget for the General Fund, Road and Bridge Special Revenue Fund, and Human Services Special Revenue Fund. A budgetary comparison statement has been provided for these three funds to demonstrate compliance with their budgets. The budgetary comparison schedules may be found on pages 55-59 of this report.

General Fund. The General Fund is used to account for all financial resources not required to be accounted for in another fund.

Special Revenue Funds. Special revenue funds account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The special revenue funds include:

- Road and Bridge
- Human Services
- Sheriff's Contingency
- Forfeited Tax Sale
- Ditch

Debt Service Fund. The Debt Service Fund accounts for the payment of principal, interest, and fiscal charges on long-term debt obligations of Isanti County.

Capital Projects Fund. The Capital Projects Fund tracks major building construction and remodeling projects.

Fiduciary Funds--The County is the trustee, or fiduciary, over assets that can be used only for the trust beneficiaries based on the trust arrangement. All of the County's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on Exhibit 7. 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.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes may be found on pages 27-54 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The combining statements referred to earlier in connection with nonmajor governmental funds, fiduciary funds, and component unit are presented on pages 61-65.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, the change in net asset amounts may serve as a useful indicator of a government's financial position. Isanti County's assets exceeded liabilities by \$56,932,698 at the close of 2005, which is an increase of \$3,407,725 over 2004. Looking at the net assets and net expenses of governmental activities, two different stories emerge. Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities.

Table 1
Net Assets

	Governmental Activities	
	2005	2004
Current and other assets	\$ 18,180,423	\$ 16,896,943
Capital assets	51,178,897	49,427,837
Total Assets	\$ 69,359,320	\$ 66,324,780
Long-term debt outstanding	\$ 10,717,936	\$ 11,291,806
Other liabilities	1,708,686	1,508,001
Total Liabilities	\$ 12,426,622	\$ 12,799,807
Net Assets		
Invested in capital assets, net of debt	\$ 41,877,033	\$ 40,824,860
Restricted	2,028,957	1,652,284
Unrestricted	13,026,708	11,047,829
Total Net Assets	\$ 56,932,698	\$ 53,524,973

Net assets of the County’s governmental activities were \$56,932,698. Unrestricted net assets--the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements--were \$13,026,708 at the end of the year.

Table 2
Changes in Net Assets
(in Thousands)

	Governmental Activities	
	2005	2004
Revenues		
Program revenues		
Fees, fines, and charges	\$ 4,048	\$ 4,020
Operating grants and contributions	8,423	8,371
Capital grants and contributions	2,852	1,703
General revenues		
Property taxes	11,195	10,329
Other taxes	98	152
Grants, gifts, and miscellaneous	3,264	3,337
Total Revenues	\$ 29,880	\$ 27,912
Expenses		
General government	\$ 5,490	\$ 5,249
Public safety	5,015	5,126
Highways and streets	4,170	1,931
Sanitation	1	113
Human services	8,677	9,161
Health	1,338	1,242
Culture and recreation	522	427
Conservation of natural resources	242	234
Economic development	744	637
Interest	273	323
Total Expenses	\$ 26,472	\$ 24,443
Increase in Net Assets	\$ 3,408	\$ 3,469

Governmental Activities

Revenues for the County’s governmental activities were \$29,879,317, while total expenses were \$26,471,592. This resulted in a \$3,407,725 increase in net assets for the year ended December 31, 2005.

The cost of all governmental activities this year was \$26,471,592. However, as shown in the Statement of Activities (Exhibit 2), the amount that our taxpayers ultimately financed for these activities through County taxes was only \$11,195,225 because some of the cost was paid by those who directly benefited from the programs (\$4,047,786) or by other governments and organizations that subsidized certain programs with grants and contributions (\$11,274,913).

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 Thousands)**

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Human services	\$ 8,677	\$ 9,161	\$ 2,835	\$ 3,630
General government	5,490	5,249	3,330	2,494
Public safety	5,015	5,126	3,213	4,137
Highways and streets	4,170	1,931	(186)	(1,122)
Health	1,338	1,242	131	17
All others	1,782	1,734	1,826	1,193
Totals	<u>\$ 26,472</u>	<u>\$ 24,443</u>	<u>\$ 11,149</u>	<u>\$ 10,349</u>

THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as presented in the balance sheet on Exhibit 3) reported a combined fund balance of \$13,297,692, which is above last year's total of \$13,056,643. The governmental funds' change in fund balance (an increase of \$241,049 for 2005) represents a two percent increase in governmental fund balances. Most of the increase is due to Human Services' expenditure reductions.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the County had \$51,178,897 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 \$1,751,060, or 3.50 percent, over last year.

**Table 4
Capital Assets at Year-End**

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,047,517	\$ -	\$ -	\$ 1,047,517
Construction in progress	4,942,645	986,544	936,492	4,992,697
Total capital assets not depreciated	\$ 5,990,162	\$ 986,544	\$ 936,492	\$ 6,040,214
Capital assets depreciated				
Buildings	\$ 10,090,359	\$ -	\$ -	\$ 10,090,359
Machinery and equipment	5,365,451	1,133,688	203,554	6,295,585
Infrastructure	44,528,275	2,343,363	-	46,871,638
Improvements other than buildings	235,479	-	5,200	230,279
Total capital assets depreciated	\$ 60,219,564	\$ 3,477,051	\$ 208,754	\$ 63,487,861
Less: accumulated depreciation for				
Buildings	\$ 3,292,679	\$ 248,474	\$ -	\$ 3,541,153
Machinery and equipment	3,601,202	515,230	133,466	3,982,966
Infrastructure	9,842,543	927,530	-	10,770,073
Improvements other than buildings	45,465	10,301	780	54,986
Total accumulated depreciation	\$ 16,781,889	\$ 1,701,535	\$ 134,246	\$ 18,349,178
Total capital assets, depreciated, net	\$ 43,437,675	\$ 1,775,516	\$ 74,508	\$ 45,138,683
Total Capital Assets, Net	\$ 49,427,837	\$ 2,762,060	\$ 1,011,000	\$ 51,178,897

Major capital asset events during 2005 included the following:

- a variety of County road and bridge construction projects with the purchase of highway equipment--completed projects and equipment purchases totaled \$2,452,505;
- vehicle and other equipment purchases for the Sheriff's Department totaled \$673,623;
- jail construction in progress totaled \$438,372; and
- renovations in progress at the Oakview building totaled \$548,172.

Long-Term Debt

At the end of 2005, Isanti County had total bonded debt outstanding of \$9,690,710. The County's bonded debt decreased by \$679,980 in 2005.

**Table 5
Outstanding Debt at Year-End**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation	\$ 9,335,000	\$ -	\$ 315,000	\$ 9,020,000	\$ 550,000
Less: deferred amounts for issuance discounts	49,885	-	3,052	46,833	-
Net bonds payable	\$ 9,285,115	\$ -	\$ 311,948	\$ 8,973,167	\$ 550,000
East Central Solid Waste	1,035,690	-	364,980	670,710	372,090
Compensated absences	971,001	598,269	495,211	1,074,059	590,254
 Total Long-Term Liabilities	 \$ 11,291,806	 \$ 598,269	 \$ 1,172,139	 \$ 10,717,936	 \$ 1,512,344

Isanti County's bond rating in 2004 increased from a rating of A2 in 2003 to Aa2. This rating is assigned by national rating agencies. The state limits the amount of net debt that counties can issue to two percent of the estimated market value of all taxable property (\$3,415,290,200) in the County. The County's outstanding debt (\$9,690,710) is significantly below this state-imposed limit.

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 governmental activities.

- State aid from the State of Minnesota has been reduced dramatically the past several years. The Minnesota Legislature will reconvene in 2006, and the aids provided to counties will certainly be a topic of discussion. A potential for more 2006 state aid cuts with little mandate relief will put additional financial pressure on Isanti County's 2007 budget.
- Isanti County General Fund expenditures for 2006 are budgeted to increase 5.2 percent from 2005. The majority of the increase went to Building Maintenance, Public Health, and Public Safety Departments.
- Isanti County was the 97th fastest growing county in the nation between April 2000 and July 2005 with a 20.4 percent population increase in that time period.
- The estimated market value of all taxable property in the County increased by \$470,202,500 in 2005 to \$3,415,290,200, or 16 percent, from 2004 values.
- Property tax levies have increased 4 percent for 2006; however, this is a decrease compared to the 5.6 increase from 2004 to 2005.

On December 19, 2005, the Isanti County Board of Commissioners approved the 2006 budget. The 2006 total net levy is \$12,966,766, which is an increase of \$671,331 compared to the 2005 total net levy of \$12,295,435.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, 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 Isanti County Coordinator, Jerry T. Tvedt, Isanti County Government Center, 555 - 18th Avenue S.W., Cambridge, Minnesota 55008. The telephone number is (763) 689-3859.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

EXHIBIT 1

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

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 12,760,194	\$ 90,621
Petty cash and change funds	1,095	-
Cash with escrow agent	506,633	-
Taxes receivable		
Prior - net	507,232	11
Special assessments receivable		
Current	-	3,536
Prior - net	-	115
Noncurrent	-	3,536
Accounts receivable - net	5,509	-
Accrued interest receivable	79,454	-
Loans receivable		
Due within one year	10,989	-
Due in more than one year	91,881	-
Due from other governments	3,664,132	1,625
Inventories	321,095	-
Prepaid items	62,281	-
Advances to component unit	120,000	-
Deferred charges	49,928	-
Capital assets		
Non-depreciable	6,040,214	-
Depreciable - net of accumulated depreciation	45,138,683	62,809
Total Assets	\$ 69,359,320	\$ 162,253
<u>Liabilities</u>		
Accounts payable	\$ 510,053	\$ -
Salaries payable	299,328	-
Contracts payable	408,733	-
Due to other governments	160,501	-
Accrued interest payable	156,280	-
Unearned revenue	173,791	-
Advance from primary government	-	120,000
Long-term liabilities		
Due within one year	1,512,344	-
Due in more than one year	9,205,592	-
Total Liabilities	\$ 12,426,622	\$ 120,000

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

***EXHIBIT 1
(Continued)***

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

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 41,877,033	\$ -
Restricted for		
Capital improvements	48,495	-
Debt service	1,668,455	-
Culture and recreation	11,423	-
Unspent bond proceeds	281,864	-
Missing heirs	18,720	-
Unrestricted	13,026,708	42,253
Total Net Assets	\$ 56,932,698	\$ 42,253

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Primary Government		
Governmental activities		
General government	\$ 5,490,423	\$ 1,998,197
Public safety	5,015,073	821,779
Highways and streets	4,169,762	139,536
Sanitation	585	-
Human services	8,677,376	532,212
Health	1,337,553	375,827
Culture and recreation	521,885	83,116
Conservation of natural resources	241,606	705
Economic development	744,030	96,414
Debt service	273,299	-
Total primary government	<u>\$ 26,471,592</u>	<u>\$ 4,047,786</u>
Component Unit		
Green Lake Improvement District	<u>\$ 8,726</u>	<u>\$ 2,045</u>

General Revenues

Property taxes
Mortgage registry and deed tax
Excess tax increment
Taxes - other
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Unrestricted investment earnings
Miscellaneous

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Discretely Presented Component Unit
\$ 162,046	\$ -	\$ (3,330,180)	
980,012	-	(3,213,282)	
992,829	2,851,537	(185,860)	
-	-	(585)	
5,310,405	-	(2,834,759)	
830,813	-	(130,913)	
56,531	-	(382,238)	
85,740	-	(155,161)	
5,000	-	(642,616)	
-	-	(273,299)	
\$ 8,423,376	\$ 2,851,537	\$ (11,148,893)	
\$ -	\$ 12,442		\$ 5,761
		\$ 11,195,225	\$ -
		55,737	-
		160	-
		8,111	-
		33,691	-
		2,902,096	6,380
		354,817	-
		6,781	-
		\$ 14,556,618	\$ 6,380
		\$ 3,407,725	\$ 12,141
		53,524,973	30,112
		\$ 56,932,698	\$ 42,253

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>
<u>Assets</u>			
Cash and pooled investments	\$ 5,824,488	\$ 1,132,906	\$ 4,193,826
Petty cash and change funds	1,095	-	-
Cash with escrow agent	-	-	-
Taxes receivable			
Prior	282,198	53,833	139,947
Accounts receivable	5,509	-	-
Accrued interest receivable	76,732	-	-
Loans receivable	-	-	-
Due from other funds	125,516	5,245	13,701
Due from other governments	347,311	2,020,958	1,226,627
Inventories	-	321,095	-
Prepaid items and deferred charges	59,435	1,413	1,433
Advances to component unit	120,000	-	-
Total Assets	<u>\$ 6,842,284</u>	<u>\$ 3,535,450</u>	<u>\$ 5,575,534</u>

EXHIBIT 3

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,151,972	\$ 258,709	\$ 198,293	\$ 12,760,194
-	-	-	1,095
506,633	-	-	506,633
31,254	-	-	507,232
-	-	-	5,509
1,601	-	1,121	79,454
-	-	102,870	102,870
3,474	-	-	147,936
-	69,186	50	3,664,132
-	-	-	321,095
-	-	-	62,281
-	-	-	120,000
<u>\$ 1,694,934</u>	<u>\$ 327,895</u>	<u>\$ 302,334</u>	<u>\$ 18,278,431</u>

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

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

	General	Road and Bridge	Human Services
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 86,075	\$ 72,835	\$ 292,968
Salaries payable	207,065	26,070	66,193
Contracts payable	6,880	202,218	-
Due to other funds	-	-	50,925
Due to other governments	53,594	6,304	13,717
Deferred revenue - unavailable	413,802	2,052,521	683,604
Deferred revenue - unearned	173,791	-	-
	\$ 941,207	\$ 2,359,948	\$ 1,107,407
Fund Balances			
Reserved for			
Encumbrances	\$ 6,620	\$ 183,102	\$ -
Inventories	-	321,095	-
Advances to component unit	120,000	-	-
Petty cash	1,095	-	-
Prepaid items	59,435	1,413	1,433
Missing heirs	18,720	-	-
Law library	74,903	-	-
Recorder's equipment	115,178	-	-
Recorder's compliance	81,719	-	-
DARE	26,518	-	-
Sheriff's forfeited property	16,386	-	-
Attorney's forfeited property	10,688	-	-
Parks and recreation	226,359	-	-
Lake Francis study	49,174	-	-
Bike trails	11,423	-	-
Cash with escrow agent	-	-	-
Unreserved			
Designated for debt service	-	-	-
Designated for capital improvements	-	-	-
Designated for oak wilt	25,591	-	-
Designated for township parks	183,385	-	-
Designated for bike trails	21,000	-	-
Designated for public education sheriff	7,278	-	-
Undesignated	4,845,605	669,892	4,466,694
Unreserved, reported in nonmajor Special revenue funds	-	-	-
	\$ 5,901,077	\$ 1,175,502	\$ 4,468,127
Total Fund Balances	\$ 5,901,077	\$ 1,175,502	\$ 4,468,127
Total Liabilities and Fund Balances	\$ 6,842,284	\$ 3,535,450	\$ 5,575,534

EXHIBIT 3
(Continued)

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 58,175	\$ -	\$ 510,053
-	-	-	299,328
-	199,635	-	408,733
-	-	97,011	147,936
-	-	86,886	160,501
26,479	-	103,991	3,280,397
-	-	-	173,791
\$ 26,479	\$ 257,810	\$ 287,888	\$ 4,980,739
\$ -	\$ 21,590	\$ -	\$ 211,312
-	-	-	321,095
-	-	-	120,000
-	-	-	1,095
-	-	-	62,281
-	-	-	18,720
-	-	-	74,903
-	-	-	115,178
-	-	-	81,719
-	-	-	26,518
-	-	-	16,386
-	-	-	10,688
-	-	-	226,359
-	-	-	49,174
-	-	-	11,423
506,633	-	-	506,633
1,161,822	-	-	1,161,822
-	48,495	-	48,495
-	-	-	25,591
-	-	-	183,385
-	-	-	21,000
-	-	-	7,278
-	-	-	9,982,191
-	-	14,446	14,446
\$ 1,668,455	\$ 70,085	\$ 14,446	\$ 13,297,692
\$ 1,694,934	\$ 327,895	\$ 302,334	\$ 18,278,431

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**ISANTI COUNTY
CAMBRIDGE, 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)	\$	13,297,692
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		51,178,897
Assets not available to pay for current period expenditures are deferred in governmental funds.		3,280,397
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (9,020,000)	
Unamortized discount on bonds	46,833	
East Central Solid Waste liability	(670,710)	
Compensated absences	(1,074,059)	
Accrued interest payable	(156,280)	
Deferred debt issuance charges	49,928	
	(10,824,288)	(10,824,288)
Net assets of governmental activities (Exhibit 1)	\$	<u>56,932,698</u>

**ISANTI COUNTY
CAMBRIDGE, 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	\$ 6,542,347	\$ 1,102,627
Licenses and permits	711,245	-
Intergovernmental	4,068,505	3,231,040
Charges for services	1,696,181	22,488
Fines and forfeits	162,544	-
Gifts and contributions	30,656	-
Interest on investments	317,924	-
Miscellaneous	519,620	117,048
	\$ 14,049,022	\$ 4,473,203
Expenditures		
Current		
General government	\$ 5,123,876	\$ -
Public safety	5,159,033	-
Highways and streets	-	4,586,393
Sanitation	585	-
Human services	-	-
Health	1,340,376	-
Culture and recreation	205,655	-
Conservation of natural resources	241,606	-
Economic development	662,598	-
Intergovernmental	496,878	-
Capital outlay	529,751	-
Debt service		
Principal	-	-
Interest	-	-
Administrative (fiscal) charges	-	-
	\$ 13,760,358	\$ 4,586,393
Excess of Revenues Over (Under) Expenditures	\$ 288,664	\$ (113,190)
Other Financing Sources (Uses)		
Proceeds from sale of assets	8,037	-
	\$ 296,701	\$ (113,190)
Fund Balance - January 1	5,604,376	1,275,744
Increase (decrease) in reserved for inventories	-	12,948
	\$ 5,901,077	\$ 1,175,502
Fund Balance - December 31	\$ 5,901,077	\$ 1,175,502

EXHIBIT 5

Human Services	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 2,956,995	\$ 698,048	\$ -	\$ 8,093	\$ 11,308,110
-	-	-	-	711,245
5,867,465	185,193	-	-	13,352,203
76,277	-	-	-	1,794,946
-	-	-	176,918	339,462
-	-	-	-	30,656
-	36,893	-	-	354,817
473,202	-	6,018	-	1,115,888
\$ 9,373,939	\$ 920,134	\$ 6,018	\$ 185,011	\$ 29,007,327
\$ -	\$ -	\$ -	\$ 182,066	\$ 5,305,942
-	-	-	-	5,159,033
-	-	-	-	4,586,393
-	-	-	-	585
8,700,846	-	-	-	8,700,846
-	-	-	-	1,340,376
-	-	-	-	205,655
-	-	-	-	241,606
-	-	-	-	662,598
-	-	-	-	496,878
-	-	880,155	-	1,409,906
-	315,000	-	-	315,000
-	359,338	-	-	359,338
-	3,107	-	-	3,107
\$ 8,700,846	\$ 677,445	\$ 880,155	\$ 182,066	\$ 28,787,263
\$ 673,093	\$ 242,689	\$ (874,137)	\$ 2,945	\$ 220,064
-	-	-	-	8,037
\$ 673,093	\$ 242,689	\$ (874,137)	\$ 2,945	\$ 228,101
3,795,034	1,425,766	944,222	11,501	13,056,643
-	-	-	-	12,948
\$ 4,468,127	\$ 1,668,455	\$ 70,085	\$ 14,446	\$ 13,297,692

**ISANTI COUNTY
CAMBRIDGE, 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) \$ 228,101

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

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

Deferred revenue - December 31	\$ 3,280,397	
Deferred revenue - January 1	(2,416,444)	863,953

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Also, in the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the disposed assets.

Expenditures for general capital assets and infrastructure	\$ 3,527,103	
Net book value of assets disposed of	(74,508)	
Current year depreciation	(1,701,535)	1,751,060

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

Principal repayments		
General obligation bonds	\$ 315,000	
East Central Solid Waste	364,980	679,980

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

Change in accrued interest payable	\$ (18,995)	
Change in compensated absences	(103,058)	
Amortization of discounts and deferred issuance charges	(6,264)	
Change in inventories	12,948	(115,369)

Change in net assets of governmental activities (Exhibit 2) \$ 3,407,725

FIDUCIARY FUNDS

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ISANTI COUNTY
CAMBRIDGE, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2005

	<u>Agency</u>
<u>Assets</u>	
Cash and cash equivalents	<u>\$ 1,264,126</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 1,264,126</u>

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Isanti County was established February 13, 1857, 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 Isanti County (primary government) and its component unit for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Discretely Presented Component Unit

While part of the reporting entity, the discretely presented component unit is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County. Disclosures relating to the discrete component unit are reported with those of the primary government. The County's significant accounting policies are also used by the discrete component unit. The following component unit of Isanti County is discretely presented:

<u>Component Unit</u>	<u>Component Unit Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Green Lake Improvement District	The County is financially accountable for the District as a result of fiscal dependency.	Separate financial statements are not prepared.

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in joint ventures described in Note 5.C. The County also participates in a jointly-governed organization described in Note 5.D.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government and its component unit. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities are activities normally supported by taxes and intergovernmental revenues.

In the government-wide statement of net assets, the governmental column: (a) is presented on a consolidated basis by column; and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

Isanti County's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or 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.

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

- The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.
- The Human Services Special Revenue Fund is used to account for economic assistance and community social services programs.
- The Debt Service Fund is used to account for revenues and expenditures related to the County's debt activity.
- The Capital Projects Fund is used to account for financial resources to be used for construction and improvements to the Jail and the Oakview project.

Additionally, the County reports the following fund type:

- The 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.

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Isanti County considers all revenues as available if collected within 45 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on 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. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2005, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2005 were \$354,817.

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

Effective December 31, 2005, the County implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement eliminated or modified portions of the disclosures previously required by GASB Statement 3. Statement 40 is designed to improve financial reporting of deposit and investment risks.

Isanti County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

2. Receivables and Payables

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

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

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.

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories and Prepaid Items

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

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.

4. 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.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost equal to or more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 the life of the asset are not capitalized.

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

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Capital Assets (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	25 - 50
Improvements other than buildings	10 - 40
Infrastructure	20 - 75
Intangible assets	5 - 7
Machinery and equipment	5 - 20

6. Compensated Absences

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

7. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Deferred Revenue (Continued)

	Unavailable	Unearned
Delinquent property taxes	\$ 507,232	\$ -
Grant receivables that do not provide current financial resources	2,773,165	-
Grant drawdowns prior to meeting all eligibility requirements	-	173,791
Total Deferred/Unearned Revenue for All Governmental Funds	\$ 3,280,397	\$ 173,791

8. Long-Term Obligations

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

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

9. 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.

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Use of Estimates

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

E. Revenues

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs. The modified accrual basis of accounting is used by all governmental fund types. Under this basis, revenue is not recognized in the financial statements unless it is available to finance current expenditures.

Imposed Nonexchange Transactions

Imposed nonexchange transactions result from assessments by governments on nongovernmental entities and individuals. Property taxes, fines and penalties, and property forfeitures are imposed nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes were levied. In the funds, property taxes receivable but not available are reported as deferred revenue and will be recognized as revenue in the fiscal year that they become available. Fines and penalties and property forfeitures are recognized in the period received.

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and also may establish time requirements. Federal and state grants mandating the County perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when eligibility and time requirements are met, usually when the corresponding expenditure is incurred.

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues

Imposed Nonexchange Transactions (Continued)

Voluntary nonexchange transactions result from legislative or contractual agreements, such as grants, entitlements, appropriations, and donations. The provider may establish purpose restrictions or eligibility requirements. Revenues are recognized in the year to which they apply according to the statute or contract. Gifts and contributions from individuals are also considered voluntary nonexchange transactions and are generally recognized when received.

Tax credits paid by the state are included in intergovernmental revenues and are recognized as revenue in the fiscal year that they become available. State-aid highway allotments for highway maintenance and construction are recognized as revenue in the year of allotment.

Exchange Transactions

Special assessments levied against benefiting properties are recognized under the modified accrual basis when available to finance current expenditures. Other revenues, such as licenses and permits, charges for services, and investment income, are recognized as revenue when earned.

2. Stewardship, Compliance, and Accountability

Individual Fund Deficits

Two of the four drainage systems in the Ditch Special Revenue Fund have incurred expenditures in excess of revenues and available resources. The following summary shows fund balances as of December 31, 2005:

Ditches with positive balances	\$ 15,551
Ditches with negative balances	<u>(5,308)</u>
Total	<u>\$ 10,243</u>

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 12,760,194
Petty cash and change funds	1,095
Cash with escrow agent	506,633
Discretely presented component unit	
Cash and pooled investments	90,621
Statement of fiduciary net assets	
Cash and pooled investments	<u>1,264,126</u>
Total Cash and Investments	<u>\$ 14,622,669</u>

a. Deposits

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

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

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. However, the County complies with Minnesota statutes in establishing collateral for its deposits. At December 31, 2005, the County was not exposed to custodial credit risk.

b. Investments

The funds of the County shall be deposited or invested in accordance with Minn. Stat. § 118A, any other applicable laws, and County investment policy. The objectives, in order of priority, will be to preserve principal, maintain liquidity, and earn the optimum rate of return.

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;

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

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. In accordance with the County's investment policy, investments will be sufficiently diverse to avoid risk and enhance return.

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

At December 31, 2005, the County had the following investments:

Investment Type	Fair Value	Less Than 2 Years	2 - 5 Years	5 - 10 Years	More Than 10 Years
Federal Home Loan Bank Federal Home Loan Mortgage Corporation	\$ 4,271,680	\$ 1,616,738	\$ 837,471	\$ 1,621,411	\$ 196,060
Freddie Mac	248,413	-	248,413	-	-
MAGIC Mutual Fund	199,448	199,448	-	-	-
Negotiable certificates	3,958,480	3,958,480	-	-	-
	769,868	196,191	94,744	478,933	-
Total Investments	\$ 9,447,889	\$ 5,970,857	\$ 1,180,628	\$ 2,100,344	\$ 196,060

Credit Risk

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

Following is a summary of the credit risk and fair values as of December 31, 2005:

Investment Type	Credit Risk		Carrying (Fair) Value
	Credit Rating	Rating Agency	
U.S. government agency securities			
Federal Home Loan Bank	AAA	Moody's	\$ 1,987,998
Federal Home Loan Bank	AAA	S&P	2,283,682
Total Federal Home Loan Bank			\$ 4,271,680
Federal Home Loan Mortgage Corporation Note	AAA	S&P	\$ 248,413

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Credit Risk (Continued)

Investment Type	Credit Risk		Carrying (Fair) Value
	Credit Rating	Rating Agency	
Freddie Mac Note	AAA	S&P	\$ 199,448
MAGIC Fund	N/R	N/A	\$ 3,958,480
Negotiable certificates of deposit	N/A	N/A	\$ 769,868
Total investments			\$ 9,447,889
Deposits			4,667,052
Petty cash			1,095
Cash with escrow agent			506,633
Total Cash and Investments			<u>\$ 14,622,669</u>

N/A - Not Applicable
N/R - Not Rated
S&P - Standard and Poor's

Custodial Credit Risk

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

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County shall diversify its investments to avoid incurring unreasonable risks by over-investing in

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Concentration of Credit Risk (Continued)

specific instruments, individual financial institutions, or maturities. Investments in any one issuer that represent five percent or more of the County's investments are as follows:

Issuer	Reported Amount
Federal Home Loan Bank	\$ 4,271,680

In accordance with the County's investment policy, total long-term investments exceeding five years shall not exceed 25 percent of the investment portfolio. There were no investments that exceeded this limitation as of December 31, 2005.

2. Capital Assets

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

Primary Government

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,047,517	\$ -	\$ -	\$ 1,047,517
Construction in progress	4,942,645	986,544	936,492	4,992,697
Total capital assets not depreciated	\$ 5,990,162	\$ 986,544	\$ 936,492	\$ 6,040,214
Capital assets depreciated				
Buildings	\$ 10,090,359	\$ -	\$ -	\$ 10,090,359
Improvements other than buildings	235,479	-	5,200	230,279
Machinery, furniture, and equipment	5,365,451	1,133,688	203,554	6,295,585
Infrastructure	44,528,275	2,343,363	-	46,871,638
Total capital assets depreciated	\$ 60,219,564	\$ 3,477,051	\$ 208,754	\$ 63,487,861

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Capital Assets

Primary Government (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 3,292,679	\$ 248,474	\$ -	\$ 3,541,153
Improvements other than buildings	45,465	10,301	780	54,986
Machinery, furniture, and equipment	3,601,202	515,230	133,466	3,982,966
Infrastructure	9,842,543	927,530	-	10,770,073
	<u>\$ 16,781,889</u>	<u>\$ 1,701,535</u>	<u>\$ 134,246</u>	<u>\$ 18,349,178</u>
Total accumulated depreciation				
Total capital assets depreciated, net	\$ 43,437,675	\$ 1,775,516	\$ 74,508	\$ 45,138,683
Primary Government Capital Assets, Net	<u>\$ 49,427,837</u>	<u>\$ 2,762,060</u>	<u>\$ 1,011,000</u>	<u>\$ 51,178,897</u>

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

General government	\$ 267,182
Public safety	286,100
Highways and streets (including infrastructure)	1,085,249
Human services	7,497
Health	2,283
Culture and recreation	8,645
Economic development	44,579
	<u>\$ 1,701,535</u>
Total	

Green Lake Project Component Unit

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Improvements other than buildings	\$ 76,909	\$ -	\$ -	\$ 76,909
Less: accumulated depreciation	(10,254)	(3,846)	-	(14,100)
Component Unit Capital Assets, Net	<u>\$ 66,655</u>	<u>\$ (3,846)</u>	<u>\$ -</u>	<u>\$ 62,809</u>

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

Interfund Balances

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

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Tax Forfeited Property	\$ 74,591
General	Human Services	50,925
Road and Bridge	Tax Forfeited Property	5,245
Human Services	Tax Forfeited Property	13,701
Debt Service	Tax Forfeited Property	<u>3,474</u>
Total Due To/From Other Funds		<u>\$ 147,936</u>

Advances From/To Component Unit

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Green Lake Project Component Unit	<u>\$ 120,000</u>

C. Liabilities

1. Construction Commitments

The government has active construction projects as of December 31, 2005. The projects include the following (amounts in thousands):

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Jail construction	\$ 3,864	\$ 24
Oakview	1,129	871

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Other Postemployment Benefits - Retirees

For employees hired before January 1, 1992, the County provides a postemployment benefit that covers the cost of single medical insurance coverage for qualified retirees. Qualified retirees include employees 65 years of age or older at retirement, or 62 years of age and with ten years of County service or with 20 years of service, and must meet Public Employees Retirement Association of Minnesota retirement requirements. Retirees who receive medical benefits from subsequent employment are no longer eligible for this benefit. The benefit terminates upon their death. This benefit is authorized by Minn. Stat. § 471.61, subd. 2a.

As of year-end, the County has 39 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2005, the County expended \$125,800 for these benefits.

3. Long-Term Debt

<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					
1998 G.O. Public Facility Refunding Bonds	2014	\$225,000 - \$645,000	4.30 - 4.85	\$ 5,965,000	\$ 5,255,000
2003A G.O. Jail Bonds	2021	\$50,000 - \$355,000	1.125 - 3.85	2,770,000	2,365,000
2004A G.O. Jail Bonds	2022	\$25,000 - \$320,000	3.75 - 4.40	<u>1,400,000</u>	<u>1,400,000</u>
Total general obligation bonds				<u>\$ 10,135,000</u>	\$ 9,020,000
Less: unamortized discount					<u>(46,833)</u>
Total General Obligation Bonds, Net					<u>\$ 8,973,167</u>

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2006	\$ 550,000	\$ 364,696
2007	590,000	341,463
2008	615,000	316,656
2009	645,000	290,305
2010	670,000	262,248
2011 - 2015	3,380,000	834,936
2016 - 2020	1,875,000	325,162
2021 - 2022	695,000	28,696
Total	<u>\$ 9,020,000</u>	<u>\$ 2,764,162</u>

5. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 9,335,000	\$ -	\$ 315,000	\$ 9,020,000	\$ 550,000
East Central Solid Waste Commission	1,035,690	-	364,980	670,710	372,090
Compensated absences	971,001	598,269	495,211	1,074,059	590,254
Governmental Activity Long-Term Liabilities	<u>\$ 11,341,691</u>	<u>\$ 598,269</u>	<u>\$ 1,175,191</u>	<u>\$ 10,764,769</u>	<u>\$ 1,512,344</u>

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Isanti 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.

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 for each year of service.

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. 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 are 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.

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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

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

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

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2005	\$ 465,919	\$ 93,332	\$ 96,033
2004	413,469	86,612	91,883
2003	396,406	79,183	85,525

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.

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

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 \$1,336, \$1,262, and \$1,213, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

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

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

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

B. Contingent Liabilities

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

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

C. Joint Ventures

East Central Solid Waste Commission

The East Central Solid Waste Commission was established in March 1988 by a joint powers agreement among Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to conduct a solid waste management program on behalf of the participating counties. The Commission is an organized joint venture having powers, duties, and privileges granted joint powers by Minn. Stat. § 471.59. The Commission has five voting members, one from each county. At its annual meeting, the Board of County Commissioners of each county chose a member and an alternate, both County Commissioners, as representatives of the county. Each county has one voting member and, in the absence of the voting member, the alternate votes.

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

East Central Solid Waste Commission (Continued)

Each county's proportionate share of the total operating cost is based on the most recent census data available and is to be adjusted upon the admission of additional counties or the withdrawal of present counties. The Commission will remain in existence so long as two or more of the counties remain as parties to the agreement, or until January 1, 2008. Upon dissolution of the Commission, there will be an accounting to determine assets and liabilities. The assets of the Commission will be liquidated and, after payment of liabilities, the proceeds will be distributed to the counties based on their respective ratios set by the most recent census data.

Each county's share of the Commission's assets, liabilities, and equities cannot be accurately determined since it will fluctuate with census data rather than ownership interest.

At December 31, 2005, the Commission had \$2,830,000 in long-term bonds outstanding. The bonds will be retired from solid waste fee revenues. Should these revenues be insufficient to retire the debt, the participating counties are currently responsible in the following proportion:

Chisago County	28.0%
Isanti County	23.7
Kanabec County	11.7
Mille Lacs County	17.1
Pine County	19.5

Isanti County's proportionate share of the bonds payable is \$670,710 for which the County is contingently liable.

During 1993, the participating counties were notified that the Commission was unable to meet its cash needs for debt service. The counties were assessed for their proportionate share for 1993 and the following years. Isanti County's contribution was \$190,493 for 2005. Complete financial statements of the East Central Solid Waste Commission can be obtained at 1756 - 180th Avenue, Mora, Minnesota 55051.

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

East Central Regional Library

The East Central Regional Library was established by a joint powers agreement among Aitkin, Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to provide an efficient and improved regional library service. The Library Service Board comprises 18 members, one County Board member and two appointees from each member county.

Isanti County's contribution for 2005 was \$304,423. Complete financial statements of the East Central Regional Library can be obtained at 244 South Birch, Cambridge, Minnesota 55008.

D. Jointly-Governed Organization

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

Isanti County Integrated Collaborative

The Isanti County Integrated Collaborative was established February 18, 1998, under the authority of the Joint Powers Act, pursuant to Minn. Stat. §§ 471.59 and 124D.23. The Collaborative includes Isanti County Family Services, Braham Area School District #314, Cambridge-Isanti Independent School District #911, Isanti County Public Health, and the Isanti County Probation Department. The purpose of the Collaborative is to provide culturally appropriate programs and services to children and families, prevent children from developing more severe disabilities, and provide for the safety and security of the community and its children.

Control of the Isanti County Integrated Collaborative is vested in a five-member governance board appointed by the member parties.

Financing is provided by state and federal grants and contributions from its member parties. Isanti County, in an agent capacity, reports the cash transactions of the Isanti County Integrated Collaborative's Integrated Fund as an agency fund in its financial statements.

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organization

Isanti County Integrated Collaborative (Continued)

Financial statements of the Isanti County Integrated Collaborative's Integrated Fund can be obtained at Isanti County Family Services Department, 555 - 18th Avenue S.W., Cambridge, Minnesota 55008.

REQUIRED SUPPLEMENTARY INFORMATION

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 6,358,057	\$ 6,358,057	\$ 6,542,347	\$ 184,290
Licenses and permits	567,115	567,115	711,245	144,130
Intergovernmental	3,551,107	3,551,107	4,068,505	517,398
Charges for services	1,684,770	1,684,770	1,696,181	11,411
Fines and forfeits	130,775	130,775	162,544	31,769
Gifts and contributions	27,355	27,355	30,656	3,301
Investment earnings	340,010	340,010	317,924	(22,086)
Miscellaneous	496,030	496,030	519,620	23,590
Total Revenues	\$ 13,155,219	\$ 13,155,219	\$ 14,049,022	\$ 893,803
Expenditures				
Current				
General government				
Commissioners	\$ 194,974	\$ 194,974	\$ 203,682	\$ (8,708)
Courts	410,753	410,753	341,504	69,249
Law library	28,845	28,845	26,722	2,123
County administration	736,135	736,135	723,792	12,343
County auditor hold account	-	-	11,915	(11,915)
County auditor	500,915	500,915	492,048	8,867
County treasurer	202,271	202,271	191,760	10,511
County assessor	377,758	377,758	373,455	4,303
Elections	2,500	2,500	1,795	705
Accounting and auditing	40,000	40,000	34,705	5,295
Data processing	288,457	288,457	204,499	83,958
Central services	10,000	10,000	733	9,267
Human rights commission	2,000	2,000	2,704	(704)
Attorney	888,119	888,119	882,780	5,339
Recorder	235,283	235,283	219,048	16,235
Surveyor	30,000	30,000	27,121	2,879
Planning and zoning	550,442	550,442	482,431	68,011
Buildings and plant	856,950	856,950	769,970	86,980
Veterans service officer	63,481	63,481	49,212	14,269
Appropriations	84,000	84,000	84,000	-
Total general government	\$ 5,502,883	\$ 5,502,883	\$ 5,123,876	\$ 379,007

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 1
(Continued)

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 4,134,929	\$ 4,134,929	\$ 4,262,281	\$ (127,352)
Safety and rescue	14,000	14,000	8,705	5,295
Emergency management	101,714	101,714	94,720	6,994
Coroner	56,840	56,840	41,062	15,778
E-911 system	48,000	48,000	194,068	(146,068)
Probation and parole	587,498	587,498	558,197	29,301
Total public safety	\$ 4,942,981	\$ 4,942,981	\$ 5,159,033	\$ (216,052)
Sanitation				
Solid waste	\$ -	\$ -	\$ 585	\$ (585)
Health				
Nursing service	\$ 1,255,886	\$ 1,255,886	\$ 1,340,376	\$ (84,490)
Culture and recreation				
Historical society	\$ 20,000	\$ 20,000	\$ 22,321	\$ (2,321)
Parks	156,721	156,721	117,564	39,157
Celebrations	985	985	728	257
Bike trails	-	-	65,042	(65,042)
Total culture and recreation	\$ 177,706	\$ 177,706	\$ 205,655	\$ (27,949)
Conservation of natural resources				
Extension	\$ 135,179	\$ 135,179	\$ 119,109	\$ 16,070
Soil and water conservation	42,619	42,619	65,251	(22,632)
Agricultural inspections	10,377	10,377	7,416	2,961
Agricultural society/County fair	30,000	30,000	30,000	-
Predator control	8,000	8,000	3,329	4,671
Oak wilt program	6,500	6,500	16,501	(10,001)
Total conservation of natural resources	\$ 232,675	\$ 232,675	\$ 241,606	\$ (8,931)

**ISANTI COUNTY
CAMBRIDGE, 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)				
Economic development				
Transit	\$ 594,794	\$ 594,794	\$ 662,598	\$ (67,804)
Intergovernmental				
Sanitation	\$ 191,801	\$ 191,801	\$ 190,493	\$ 1,308
Library	305,423	305,423	306,385	(962)
Total intergovernmental	\$ 497,224	\$ 497,224	\$ 496,878	\$ 346
Capital outlay				
Culture and recreation	\$ 27,000	\$ 27,000	\$ 41,099	\$ (14,099)
Buildings and plant	52,000	52,000	146,602	(94,602)
Public safety	-	-	225,236	(225,236)
Health	-	-	16,554	(16,554)
Library	12,000	12,000	100,260	(88,260)
Total capital outlay	\$ 91,000	\$ 91,000	\$ 529,751	\$ (438,751)
Total Expenditures	\$ 13,295,149	\$ 13,295,149	\$ 13,760,358	\$ (465,209)
Excess of Revenues Over (Under)				
Expenditures	\$ (139,930)	\$ (139,930)	\$ 288,664	\$ 428,594
Other Financing Sources (Uses)				
Proceeds from sale of assets	-	-	8,037	8,037
Net Change in Fund Balance	\$ (139,930)	\$ (139,930)	\$ 296,701	\$ 436,631
Fund Balance - January 1	5,604,376	5,604,376	5,604,376	-
Fund Balance - December 31	\$ 5,464,446	\$ 5,464,446	\$ 5,901,077	\$ 436,631

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,087,872	\$ 1,087,872	\$ 1,102,627	\$ 14,755
Intergovernmental	3,586,650	3,586,650	3,231,040	(355,610)
Charges for services	975	975	22,488	21,513
Miscellaneous	74,000	74,000	117,048	43,048
Total Revenues	\$ 4,749,497	\$ 4,749,497	\$ 4,473,203	\$ (276,294)
Expenditures				
Current				
Highways and streets				
Administration	\$ 270,350	\$ 270,350	\$ 297,426	\$ (27,076)
Maintenance	1,039,644	1,039,644	1,124,148	(84,504)
Construction	3,143,844	3,143,844	2,618,013	525,831
Equipment maintenance and shop	461,444	461,444	546,806	(85,362)
Total Expenditures	\$ 4,915,282	\$ 4,915,282	\$ 4,586,393	\$ 328,889
Excess of Revenues Over (Under) Expenditures	\$ (165,785)	\$ (165,785)	\$ (113,190)	\$ 52,595
Fund Balance - January 1	1,275,744	1,275,744	1,275,744	-
Increase (decrease) in reserved for inventories	-	-	12,948	12,948
Fund Balance - December 31	\$ 1,109,959	\$ 1,109,959	\$ 1,175,502	\$ 65,543

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,912,480	\$ 2,912,480	\$ 2,956,995	\$ 44,515
Intergovernmental	6,843,177	6,843,177	5,867,465	(975,712)
Charges for services	86,501	86,501	76,277	(10,224)
Miscellaneous	403,131	403,131	473,202	70,071
Total Revenues	\$ 10,245,289	\$ 10,245,289	\$ 9,373,939	\$ (871,350)
Expenditures				
Current				
Human services				
Income maintenance	\$ 2,135,416	\$ 2,135,416	\$ 2,194,991	\$ (59,575)
Social services	8,105,555	8,105,555	6,505,855	1,599,700
Total Expenditures	\$ 10,240,971	\$ 10,240,971	\$ 8,700,846	\$ 1,540,125
Excess of Revenues Over (Under) Expenditures	\$ 4,318	\$ 4,318	\$ 673,093	\$ 668,775
Fund Balance - January 1	3,795,034	3,795,034	3,795,034	-
Fund Balance - December 31	\$ 3,799,352	\$ 3,799,352	\$ 4,468,127	\$ 668,775

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

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

Stewardship, Compliance, and Accountability

Budgetary Information

General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund and certain special revenue funds. For 2005, however, budgets were not adopted for the Sheriff's Contingency, Forfeited Tax Sale, and Ditch Special Revenue Funds. The budgets may be amended or modified at any time by the County Board.

Encumbrances

Encumbrance accounting, under which commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is used in the governmental funds. Encumbrances outstanding at year-end are reported as reserved fund balances since they do not constitute expenditures or liabilities.

Budget Basis of Accounting

Budgets for the General Fund and budgeted special revenue funds are adopted on a basis consistent with generally accepted accounting principles.

Expenditures in Excess of Appropriations

In the General Fund for 2005, expenditures exceeded the budgeted amounts by \$465,209. The largest overages occurred in Public Safety (\$216,052), Health (\$84,490), Economic Development (\$67,804) and Capital Outlay (\$438,751) expenditures.

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SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Statement 1

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

	Sheriff's Contingency	Forfeited Tax Sale	Ditch	Total (Exhibit 3)
<u>Assets</u>				
Cash and pooled investments	\$ 2,212	\$ 185,838	\$ 10,243	\$ 198,293
Accrued interest receivable	-	1,121	-	1,121
Loans receivable - net	-	102,870	-	102,870
Due from other governments	50	-	-	50
Total Assets	\$ 2,262	\$ 289,829	\$ 10,243	\$ 302,334
<u>Liabilities and Fund Balances</u>				
Liabilities				
Due to other governments	\$ -	\$ 86,886	\$ -	\$ 86,886
Due to other funds	-	97,011	-	97,011
Deferred revenue	-	103,991	-	103,991
Total Liabilities	\$ -	\$ 287,888	\$ -	\$ 287,888
Fund Balances				
Unreserved				
Undesignated	2,262	1,941	10,243	14,446
Total Liabilities and Fund Balances	\$ 2,262	\$ 289,829	\$ 10,243	\$ 302,334

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Statement 2

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

	Sheriff's Contingency	Forfeited Tax Sale	Ditch	Total (Exhibit 5)
Revenues				
Taxes	\$ -	\$ 8,093	\$ -	\$ 8,093
Fines and forfeits	1,004	175,914	-	176,918
Total Revenues	\$ 1,004	\$ 184,007	\$ -	\$ 185,011
Expenditures				
Current				
General government	-	182,066	-	182,066
Excess of Revenues Over (Under) Expenditures	\$ 1,004	\$ 1,941	\$ -	\$ 2,945
Fund Balance - January 1	1,258	-	10,243	11,501
Fund Balance - December 31	\$ 2,262	\$ 1,941	\$ 10,243	\$ 14,446

FIDUCIARY FUNDS

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Statement 3

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 568,283	\$ 38,471	\$ 120,837	\$ 485,917
<u>Liabilities</u>				
Due to other governments	\$ 568,283	\$ 38,471	\$ 120,837	\$ 485,917
 <u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 74,355	\$ 187,637	\$ 25,994	\$ 235,998
<u>Liabilities</u>				
Due to other governments	\$ 74,355	\$ 187,637	\$ 25,994	\$ 235,998
 <u>COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 557,494	\$ 502,718	\$ 518,001	\$ 542,211
<u>Liabilities</u>				
Due to other governments	\$ 557,494	\$ 502,718	\$ 518,001	\$ 542,211
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,200,132	\$ 728,826	\$ 664,832	\$ 1,264,126
<u>Liabilities</u>				
Due to other governments	\$ 1,200,132	\$ 728,826	\$ 664,832	\$ 1,264,126

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COMPONENT UNIT - GREEN LAKE PROJECT

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Statement 4

**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
COMPONENT UNIT
GREEN LAKE PROJECT
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General Fund	Reconciliation	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 90,621	\$ -	\$ 90,621
Taxes receivable			
Prior	11	-	11
Special assessments			
Prior	115	-	115
Current	3,536	-	3,536
Noncurrent	3,536	-	3,536
Due from other governments	1,625	-	1,625
Capital assets			
Depreciable - net	-	62,809	62,809
Total Assets	\$ 99,444	\$ 62,809	\$ 162,253
<u>Liabilities</u>			
Current liabilities			
Deferred revenue	\$ 7,198	\$ (7,198)	\$ -
Advance from primary government	-	120,000	120,000
Total Liabilities	\$ 7,198	\$ 112,802	\$ 120,000
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved			
Undesignated	92,246	\$ (92,246)	
Total Liabilities and Fund Balance	\$ 99,444		
Net Assets			
Unrestricted		\$ 42,253	\$ 42,253
<u>Reconciliation of the General Fund Balance to Net Assets</u>			
General Fund balance			\$ 92,246
Capital assets are reported on the Statement of Net Assets but not in the General Fund Balance Sheet.			62,809
Assets not available to pay current expenditures are deferred in the fund.			7,198
Long-term liabilities, including advances payable, are not reported in the fund.			(120,000)
Net Assets			\$ 42,253

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Statement 5

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
COMPONENT UNIT
GREEN LAKE PROJECT
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General Fund	Reconciliation	Statement of Activities
Revenues			
Taxes	\$ 166	\$ (166)	\$ -
Special assessments	5,622	6,820	12,442
Gifts and contributions	6,380	-	6,380
Miscellaneous	2,045	-	2,045
	\$ 14,213	\$ 6,654	\$ 20,867
Expenditures/Expenses			
Current			
Conservation of natural resources	4,880	3,846	8,726
	\$ 9,333	\$ 2,808	\$ 12,141
Change in Fund Balance/Net Assets			
Fund Balance/Net Assets - January 1	82,913	(52,801)	30,112
Fund Balance/Net Assets - December 31	\$ 92,246	\$ (49,993)	\$ 42,253

Reconciliation of the Change in Fund Balance to the Change in Net Assets

Net Change in Fund Balance	\$ 9,333
<p>In the fund, receivables not available for expenditure are deferred. In the statement of activities, these revenues are recognized when earned.</p>	
Deferred revenue - December 31	7,198
Deferred revenue - January 1	(544)
<p>The fund reports capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over the assets' estimated useful lives and reported as depreciation expense.</p>	
	(3,846)
Change in Net Assets	\$ 12,141

OTHER SCHEDULES

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 4

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

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
Pooled Deposits and Investments			
Checking accounts			
People's State Bank	0.210%	-	\$ (153,189)
People's State Bank	-	-	86,549
People's State Bank	-	-	13,782
Cambridge State Bank	0.210%	-	47,535
Total checking accounts			\$ (5,323)
Certificates of deposit			
People's Bank of Commerce	2.500%	March 17, 2006	\$ 300,000
People's Bank of Commerce	2.780%	June 29, 2006	10,000
Rural American Bank - Braham	2.500%	June 22, 2006	250,000
Total certificates of deposit			\$ 560,000
Negotiable certificates of deposit			
Standard Federal Bank	5.600%	November 10, 2010	\$ 94,744
Capital Crossing Bank - Boston, MA	5.000%	September 28, 2006	96,094
First National Bank of Omaha	5.000%	September 27, 2006	100,097
Huntington National Bank - Columbus, OH	4.500%	December 2, 2014	95,894
Waypoint Bank - Harrisburg, PA	3.000%	July 8, 2013	95,351
M&T Bank - Buffalo, NY	3.500%	September 26, 2011	97,374
M&I Bank FSB - Las Vegas, NV	4.125%	January 8, 2013	95,997
LaSalle Bank - Chicago, IL	5.600%	February 9, 2011	94,317
Total negotiable certificates of deposit			\$ 769,868
Money market savings			
People's Bank of Commerce	1.330%	-	\$ 1,584,963
Cambridge State Bank	2.250%	-	1,305,115
Wells Fargo	3.900%	-	1,222,297
Total money market savings			\$ 4,112,375
Cash management fund			
MAGIC Fund	3.900%	-	\$ 3,958,480

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

**Schedule 4
(Continued)**

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

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
Pooled Deposits and Investments (Continued)			
U.S. government securities			
Federal Home Loan Bank	2.750%	July 28, 2006	\$ 199,254
Federal Home Loan Bank	3.750%	September 22, 2006	249,400
Federal Home Loan Bank	3.900%	October 27, 2006	299,370
Federal Home Loan Bank	4.000%	May 25, 2018	196,060
Federal Home Loan Bank	3.000%	October 19, 2007	149,427
Federal Home Loan Bank	3.500%	July 29, 2008	491,315
Federal Home Loan Bank	4.000%	August 13, 2013	292,968
Federal Home Loan Bank	3.250%	January 15, 2008	197,686
Federal Home Loan Bank	4.000%	June 19, 2013	243,853
Federal Home Loan Bank	3.000%	June 26, 2013	478,760
Federal Home Loan Bank	4.000%	July 17, 2013	219,123
Federal Home Loan Bank	4.000%	May 1, 2013	196,956
Federal Home Loan Bank	3.000%	June 26, 2013	189,752
Federal Home Loan Bank	4.000%	December 16, 2008	148,470
Federal Home Loan Bank	3.000%	February 25, 2008	248,412
Federal Home Loan Bank	3.500%	November 9, 2007	321,250
Federal Home Loan Bank	2.750%	December 28, 2006	248,967
Federal Home Loan Bank	3.000%	February 9, 2007	149,070
Freddie Mac	2.750%	December 29, 2006	199,448
Total U.S. government securities			\$ 4,719,541
Total Pooled Deposits and Investments			\$ 14,114,941

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 5

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

	2004		2005		2006	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Tax Capacity						
Real property	\$ 20,558,449		\$ 24,183,946		\$ 28,140,937	
Personal property	331,804		369,334		398,387	
Less: tax increment	(296,698)		(355,281)		(372,230)	
Net Tax Capacity	<u>\$ 20,593,555</u>		<u>\$ 24,197,999</u>		<u>\$ 28,167,094</u>	
Taxes Levied for County Purposes						
General	\$ 7,348,252	31.654	\$ 7,916,794	29.027	\$ 8,262,547	26.393
Road and Bridge	1,281,076	5.518	1,377,872	5.052	1,438,613	4.595
Human Services	3,778,295	16.276	3,688,922	13.526	3,757,531	12.003
Jail Debt Service	206,700	0.890	140,252	0.514	220,147	0.703
Government Center Debt Service	509,932	2.197	734,235	2.692	732,950	2.341
Total Levy for County Purposes	<u>\$ 13,124,255</u>	<u>56.535</u>	<u>\$ 13,858,075</u>	<u>50.811</u>	<u>\$ 14,411,788</u>	<u>46.035</u>
Less Credits Payable by State	<u>1,481,700</u>		<u>1,562,640</u>		<u>1,445,022</u>	
Net Levy for County Purposes	<u>\$ 11,642,555</u>		<u>\$ 12,295,435</u>		<u>\$ 12,966,766</u>	
Percentage of Tax Collections for All Purposes	97.51%		97.30%			

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 6

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

	County Ditches				Totals
	1	3	4	16	
 <u>Assets</u>					
Cash and pooled investments	\$ 15,489	\$ (4,584)	\$ 62	\$ (724)	\$ 10,243
 <u>Fund Balance</u>					
Unreserved, undesignated	\$ 15,489	\$ (4,584)	\$ 62	\$ (724)	\$ 10,243

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 7

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

	Governmental Funds
Shared Revenue	
State	
Highway users tax	\$ 2,173,808
PERA rate reimbursement	37,531
Disparity reduction aid	40,987
Highway shared revenue	84,740
Police aid	86,612
Local government aid	1,408,854
Performance aid	763
Market value credit	1,181
Market value credit - real property residential	1,110,366
Market value credit - agricultural	215,637
Temporary court aid	153,786
	\$ 5,314,265
Reimbursement for Services	
State	
Minnesota Department of Human Services	\$ 2,023,889
Payments	
Local	
Local contributions	\$ 7,723
Payments in lieu of taxes	33,691
	\$ 41,414
Grants	
State	
Minnesota Department of Crime Victim Services	\$ 37,881
Corrections	193,783
Public Safety	93,480
Transportation	621,774
Health	240,433
Natural Resources	3,954
Human Services	1,895,394
Veterans Affairs	4,200
Office of Environmental Assistance	67,786
Water and Soil Resources Board	52,108
	\$ 3,210,793

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 7
(Continued)

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

	Governmental Funds
Grants (Continued)	
Federal	
Department of	
Agriculture	\$ 199,292
Justice	73,115
Transportation	641,683
Health and Human Services	1,476,869
Homeland Security	364,883
Environmental Protection Agency	6,000
	<hr/>
Total Federal	\$ 2,761,842
	<hr/>
Total State and Federal Grants	\$ 5,972,635
	<hr/>
Total Intergovernmental Revenue	<u>\$ 13,352,203</u>

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

Highway Planning and Construction	CFDA #20.205
State Domestic Preparedness Equipment Support Program	CFDA #97.004
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Isanti County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

ITEM ARISING THIS YEAR

05-1 Segregation of Duties

Due to the limited number of office personnel within various County offices, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Offices that do not have sufficient segregation of duties include the Treasurer, Recorder, Planning and Zoning, and Highway. This is not unusual in operations the size of Isanti County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

We understand that the County's management has acknowledged this condition and is taking steps to address it when possible. We encourage the County to continue with these efforts.

Client's Response:

Management is aware of this situation and will review procedures periodically.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS RESOLVED

Business Continuity Plan (03-1)

Previous reports have recommended that the County prepare a business continuity plan to address current business operations should they become disrupted. We recommended that strategies be formulated to guide the County through disruptive times to enable the re-establishment of operations though most likely at a reduced level.

Resolution

The Isanti County Homeland Security Department has held regular meetings with County personnel concerning a business continuity plan. The process to date has established an outline of the County's Continuity of Operations Plan (COOP). This COOP outline will serve as the basis for restoring County services during disruptions until a detailed plan approved by the County Board is completed.

Capital Asset Policy (03-2)

Our previous reports recommended that the County prepare and approve a written capital asset policy.

Resolution

We found that a written capital asset policy was prepared by the County and approved by the Board.

B. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

05-2 Security Interest in Pledged Collateral

The County did not have documentation that it had a perfected security interest in pledged collateral with the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). A 1992 U.S. Court of Appeals decision stated that if the municipality fails to perfect a security interest under federal law, its rights to such collateral in the event of default is not enforceable. To obtain an enforceable security interest in the collateral, the following is required:

- the assignment of collateral be in writing (required by Minn. Stat. § 118A.03, subd. 4);
- the assignment be approved by the depository's Board of Directors or loan committee, and a copy of the depository's action should be retained by the County, and
- the assignment of collateral be continuous from the time of execution.

We recommend the County require its depositories to comply with FIRREA and to provide proof of their compliance in the form of a board or committee resolution to the County. Specific securities pledged at the time of resolution should be provided to the County.

Client's Response:

We are currently updating the security interest and pledged collateral with our local depositories as required by Minn. Stat. § 118A.03, subd. 4.

05-3

Sheriff's Department Safety and Rescue Team – Remittance of Proceeds

The Sheriff Department's Safety and Rescue Team maintains a checking account during the year. All proceeds, mostly donations, are deposited into the checking account and are held by the Safety and Rescue Team. The purchase of materials and supplies for the Safety and Rescue Team are made directly from this checking account.

Minn. Stat. §§ 385.05 and 385.07 require the county treasurer to receive all county funds and deposit them in the depository. Minn. Stat. §§ 384.13 and 471.38 require that county funds be paid out only after approval by the county board, and then only on warrants signed by the board chair and the county auditor.

We recommend that all proceeds of the Sheriff Department's Safety and Rescue Team be remitted to the County Treasurer in a timely manner. We also recommend that all disbursements pertaining to the Safety and Rescue Team be made in compliance with legal requirements and County policy.

Client's Response:

Management is aware of the situation with Safety and Rescue and will revise procedures as necessary.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

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

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

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;

Schedule 8
(Continued)

- 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 Isanti 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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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
Isanti County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Isanti County as of and for the year ended December 31, 2005, and have issued our report thereon dated October 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Isanti 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 one matter 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. A 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 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 controls over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Isanti 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, Isanti 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 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: October 30, 2006



STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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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
Isanti County

Compliance

We have audited the compliance of Isanti 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. Isanti 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 Isanti County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Isanti County as of and for the year ended December 31, 2005, and have issued our report thereon dated October 30, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 30, 2006

**ISANTI COUNTY
CAMBRIDGE, 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	Expenditures	Passed Through to Subrecipient
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 178,101	\$ 80,519
Passed Through Minnesota Department of Human Services State Administrative Matching Grant for Food Stamp Program	10.561	7,191	-
Passed Through Minnesota Department of Natural Resources Cooperative Forestry Assistance	10.664	<u>14,000</u>	<u>-</u>
Total U.S. Department of Agriculture		<u>\$ 199,292</u>	<u>\$ 80,519</u>
U.S. Department of Justice			
Passed Through Minnesota Department of Public Safety Juvenile Accountability Incentive Block Grant	16.523	\$ 11,000	\$ -
Juvenile Justice and Delinquency Prevention	16.540	10,809	-
Title V Delinquency Prevention	16.548	11,448	-
Crime Victim Assistance	16.575	16,142	-
Violence Against Women Formula Grant	16.588	12,916	-
Local Law Enforcement Block Grant	16.592	<u>10,800</u>	<u>-</u>
Total U.S. Department of Justice		<u>\$ 73,115</u>	<u>\$ -</u>
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 429,562	\$ -
Federal Transit Metropolitan Planning Grant	20.505	3,622	-
Public Transportation for Non-Urbanized Areas	20.509	<u>208,499</u>	<u>104,129</u>
Total U.S. Department of Transportation		<u>\$ 641,683</u>	<u>\$ 104,129</u>
U.S. Environmental Protection Agency			
Passed Through Minnesota Department of Health State Indoor Radon Grants	66.032	<u>\$ 6,000</u>	<u>\$ -</u>
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Health Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	\$ 65,142	\$ 21,743
Preventive Health and Health Services Block Grant	93.991	15,000	-
Maternal and Child Health Services Block Grant	93.994	72,776	32,015

**ISANTI COUNTY
CAMBRIDGE, 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	Expenditures	Passed Through to Subrecipient
U.S. Department of Health and Human Services (Continued)			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	4,488	-
Temporary Assistance for Needy Families	93.558	364,848	22,003
Child Care and Development Block Grant	93.575	148,145	-
Child Care Mandatory and Matching Funds	93.596	88,167	-
Child Welfare Services	93.645	5,589	-
Foster Care Title IV-E	93.658	153,304	-
Social Services Block Grant	93.667	183,540	-
Chafee Foster Care Independence Program	93.674	6,737	-
Medical Assistance Program	93.778	44,905	-
Block Grants for Community Mental Health Services	93.958	11,700	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	312,528	146,805
Total U.S. Department of Health and Human Services		\$ 1,476,869	\$ 222,566
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
State Domestic Preparedness Equipment Support Program	97.004	\$ 334,699	\$ -
Homeland Security Grant Program	97.067	30,184	-
Total U.S. Department of Homeland Security		\$ 364,883	\$ -
Total Federal Awards		\$ 2,761,842	\$ 407,214

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 Isanti 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.
3. Pass-through grant numbers were not assigned by the pass-through agencies.