

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**ITASCA COUNTY**  
**GRAND RAPIDS, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 2006

## **Description of the Office of the State Auditor**

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

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

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

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

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

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

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

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

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

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**For the Year Ended December 31, 2006**



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

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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GRAND RAPIDS, MINNESOTA**

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2006

			Term Expires
<b>Elected</b>			
Commissioner	Russell Klegstad	District 1	January 2007
Commissioner	Catherine McLynn	District 2	January 2009
Commissioner	John Dimich	District 3	January 2007
Commissioner	Russell A. Eichorn*	District 4	January 2009
Commissioner	Mark Mandich	District 5	January 2007
Attorney	John J. Muhar		January 2007
Auditor/Treasurer (Interim)	Jay Kolar		December 31, 2006
County Recorder	Jean Bengston Winter		January 2007
County Sheriff	Pat Medure		January 2007
<b>Appointed</b>			
Assessor	Tom Gilmore		Indefinite
Coroner	Dr. Michael Baich		Indefinite
Coordinator	Robert Olson		Indefinite
Emergency Management Director	Pat Medure		Indefinite
Highway Engineer	Dave Christy		Indefinite
Land Commissioner	Garrett Ous		Indefinite
Surveyor	Tim Wotzka		Indefinite
Veterans Service Officer	Marvin Ott		Indefinite
<b>Health and Human Services Board</b>			
Chair	Mark Mandich		January 2007
Vice Chair	John Dimich		January 2007
Member	Catherine McLynn		January 2009
Member	Russell Klegstad		January 2007
Member	Russell A. Eichorn		January 2009
Director	Lester Kachinske		Indefinite

\*Chair 2006

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Itasca County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Itasca County, Minnesota, as of and for the year ended December 31, 2006, including the Nursing Home Enterprise Fund as of and for the year ended September 30, 2006, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Itasca County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Itasca Medical Care Enterprise Fund, which is both a major fund and 44 percent, 34 percent, and 76 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Itasca Medical Care Enterprise Fund, is based solely on the report of other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Itasca County as of December 31, 2006, including the Nursing

Home Enterprise Fund at September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 20, 2007, on our consideration of Itasca County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 20, 2007

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006  
(Unaudited)**

Itasca County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2006. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

**FINANCIAL HIGHLIGHTS**

- Governmental activities' total net assets are \$165,157,362, of which \$117,025,244 is invested in capital assets, net of related debt, and \$13,828,905 is restricted to specific purposes.
- Business-type activities have total net assets of \$9,960,160. Invested in capital assets, net of related debt, represents \$4,233,177 of the total. Of the total business-type net assets, \$19,815 is restricted for specific uses.
- Itasca County's net assets increased by \$8,017,994 for the year ended December 31, 2006. Of the increase, \$7,675,485 was in the governmental activities' net assets, and \$342,509 represented the increase in business-type activities' net assets.
- The net cost of governmental activities was \$25,921,318 for the current fiscal year. The net cost was funded by general revenues and contributions totaling \$33,596,803.
- Governmental funds' fund balances increased by \$635,329.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

- Governmental activities--Most of the County's basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.
- Business-type activities--The County charges a fee to customers to help it cover all or most of the cost of services it provides. The County's Nursing Home, Itasca Medical Care, and Itasca Resource Center activities are reported here.

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

### **Fund Financial Statements**

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

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

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

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

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

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

### **Reporting the County's Fiduciary Responsibilities**

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

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

The fiduciary funds financial statements are Exhibits 10 and 11.

## THE COUNTY AS A WHOLE

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

**Table 1**  
**Net Assets**  
**(in Millions)**

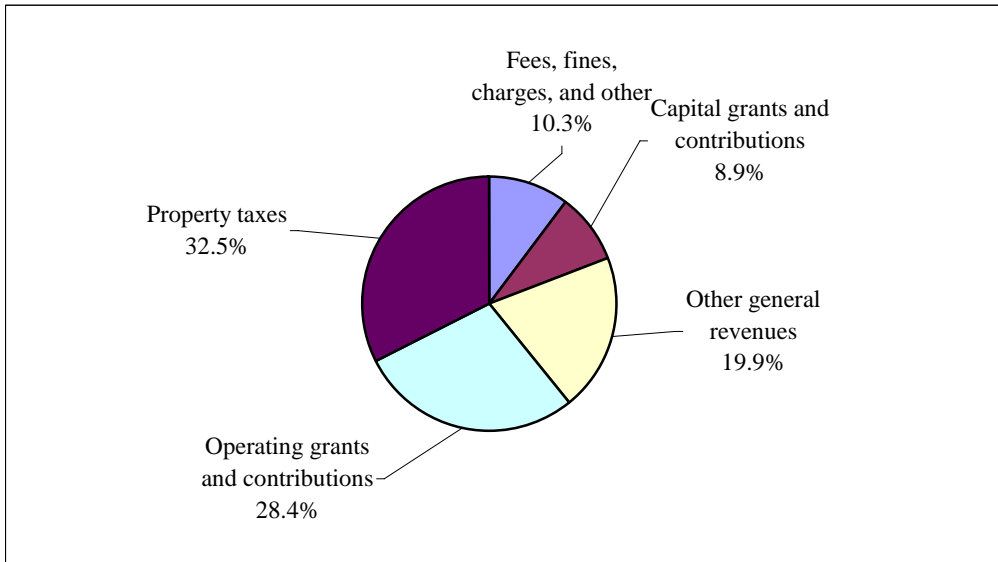
	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 61.2	\$ 62.9	\$ 13.0	\$ 9.8	\$ 74.2	\$ 72.7
Capital assets	124.2	118.1	10.3	10.3	134.5	128.4
Total Assets	\$ 185.4	\$ 181.0	\$ 23.3	\$ 20.1	\$ 208.7	\$ 201.1
Long-term debt outstanding	\$ 13.0	\$ 13.1	\$ 7.7	\$ 6.1	\$ 20.7	\$ 19.2
Other liabilities	7.2	10.4	5.7	4.4	12.9	14.8
Total Liabilities	\$ 20.2	\$ 23.5	\$ 13.4	\$ 10.5	\$ 33.6	\$ 34.0
Net Assets						
Invested in capital assets, net of debt	\$ 117.0	\$ 109.9	\$ 4.2	\$ 4.4	\$ 121.2	\$ 114.3
Restricted	13.9	12.9	-	-	13.9	12.9
Unrestricted	34.3	34.7	5.7	5.2	40.0	39.9
Total Net Assets	\$ 165.2	\$ 157.5	\$ 9.9	\$ 9.6	\$ 175.1	\$ 167.1

**Table 2**  
**Changes in Net Assets**  
**(in Millions)**

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues						
Fees, fines, charges, and other	\$ 6.6	\$ 10.4	\$ 42.1	\$ 33.1	\$ 48.7	\$ 43.5
Operating grants and contributions	18.2	17.5	-	-	18.2	17.5
Capital grants and contributions	5.7	5.2	-	-	5.7	5.2
General revenues						
Property taxes	20.8	19.7	-	-	20.8	19.7
Other taxes	1.0	1.0	-	-	1.0	1.0
Other general revenues	10.6	9.3	0.3	0.2	10.9	9.5
Contributions to permanent fund	1.2	2.8	-	-	1.2	2.8
Total Revenues	\$ 64.1	\$ 65.9	\$ 42.4	\$ 33.3	\$ 106.5	\$ 99.2

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Expenses						
General government	\$ 8.9	\$ 8.4	\$ -	\$ -	\$ 8.9	\$ 8.4
Public safety	9.5	8.4	-	-	9.5	8.4
Culture and recreation	1.0	0.8	-	-	1.0	0.8
Highways and streets	15.1	14.0	-	-	15.1	14.0
Human services	14.6	15.0	-	-	14.6	15.0
Health	1.6	1.6	-	-	1.6	1.6
Sanitation	1.7	1.6	-	-	1.7	1.6
Conservation of natural resources	2.7	2.8	-	-	2.7	2.8
Economic development	1.0	0.2	-	-	1.0	0.2
Interest	0.3	0.3	-	-	0.3	0.3
Nursing Home	-	-	9.6	8.9	9.6	8.9
Itasca Resource Center	-	-	0.5	0.5	0.5	0.5
Itasca Medical Care	-	-	32.0	23.3	32.0	23.3
<b>Total Expenses</b>	<b>\$ 56.4</b>	<b>\$ 53.1</b>	<b>\$ 42.1</b>	<b>\$ 32.7</b>	<b>\$ 98.5</b>	<b>\$ 85.8</b>
Increase (Decrease) in Net Assets	\$ 7.7	\$ 12.8	\$ 0.3	\$ 0.6	\$ 8.0	\$ 13.4
Net Assets - January 1	157.5	144.7	9.6	9.0	167.1	153.7
Net Assets - December 31	<u>\$ 165.2</u>	<u>\$ 157.5</u>	<u>\$ 9.9</u>	<u>\$ 9.6</u>	<u>\$ 175.1</u>	<u>\$ 167.1</u>

### Total County Revenues by Source



## Governmental Activities

The cost of all governmental activities this year was \$56.4 million. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$21.7 million because some of the cost was paid by those who directly benefited from the programs (\$6.6 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$23.9 million).

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

**Table 3**  
**Governmental Activities**  
**(in Millions)**

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Highways and streets	\$ 15.1	\$ 14.0	\$ 3.9	\$ 1.7
Human services	14.6	15.0	6.0	6.6
Public safety	9.5	8.4	7.3	6.6
General government	8.9	8.4	6.2	6.1
Conservation of natural resources	2.7	2.8	0.7	(3.2)
All others	5.6	4.5	1.8	2.3
Totals	<u>\$ 56.4</u>	<u>\$ 53.1</u>	<u>\$ 25.9</u>	<u>\$ 20.1</u>

## Business-Type Activities

Revenues of the County’s business-type activities increased by 27 percent, and expenses increased by 28.9 percent. About 96 percent of the increase in revenues and 90 percent of the increase in expenses are increased Itasca Medical Care revenues and expenses.

## The County’s Funds

As the County completed the year, its governmental funds reported a combined fund balance of \$43.6 million, which is above last year’s total of \$42.9 million. Included in this year’s total fund balance is a surplus of \$12.9 million in the County’s General Fund. The governmental funds fund balances increased by 1.5 percent over last year.

## General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) for the County's General Fund budget were \$1.6 million above the final budget amounts. The most significant positive variance (\$0.1 million) occurred in planning and zoning. The most significant negative variances were in the public safety category (\$0.6 million) and the general government, elections category (\$0.5 million) because certain grant expenditures were unbudgeted.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2006, the County had \$134.5 million invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of \$6.2 million, or 4.8 percent, over last year. For more information on capital assets, see Note 3.A.3. to the financial statements.

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

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	\$ 1.1	\$ 1.1	\$ 0.3	\$ 0.3	\$ 1.4	\$ 1.4
Construction in progress	0.5	0.1	-	-	0.5	0.1
Buildings and improvements	17.5	17.5	8.5	8.8	26.0	26.3
Machinery, furniture, and equipment	6.8	6.3	1.5	1.1	8.3	7.4
Infrastructure	98.3	93.1	-	-	98.3	93.1
<b>Totals</b>	<u>\$ 124.2</u>	<u>\$ 118.1</u>	<u>\$ 10.3</u>	<u>\$ 10.2</u>	<u>\$ 134.5</u>	<u>\$ 128.3</u>

## Debt

At year-end, the County had \$12.5 million in bonds and notes outstanding, versus \$14.0 million last year--a decrease of 9.7 percent--as shown in Table 5.

**Table 5**  
**Outstanding Debt at Year-End**  
**(in Millions)**

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
General obligation bonds and notes (backed by the County)	\$ 7.1	\$ 8.3	\$ 1.1	\$ 1.3	\$ 8.2	\$ 9.6
Revenue bonds	-	-	4.3	4.4	4.3	4.4
Totals	<u>\$ 7.1</u>	<u>\$ 8.3</u>	<u>\$ 5.4</u>	<u>\$ 5.7</u>	<u>\$ 12.5</u>	<u>\$ 14.0</u>

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

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

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for the business-type activities.

- County expenditures for 2007 are budgeted to increase 0.9 percent over 2006.
- Property taxes levied have increased 4.69 percent for 2007.

## CONTACTING ITASCA COUNTY'S FINANCIAL MANAGEMENT

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

## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2006**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 46,736,431	\$ 9,574,391	\$ 56,310,822
Receivables - net	13,384,888	2,578,765	15,963,653
Internal balances	(296,082)	296,082	-
Inventories	1,411,470	40,057	1,451,527
Prepaid items	-	59,793	59,793
Restricted assets			
Cash and pooled investments	-	347,048	347,048
Resident trust funds	-	21,614	21,614
Deferred charges	-	125,846	125,846
Capital assets			
Nondepreciable capital assets	1,647,307	279,296	1,926,603
Depreciable capital assets - net of accumulated depreciation	122,517,937	10,020,628	132,538,565
<b>Total Assets</b>	<b>\$ 185,401,951</b>	<b>\$ 23,343,520</b>	<b>\$ 208,745,471</b>
<b><u>Liabilities</u></b>			
Accounts payable and other current liabilities	\$ 6,405,027	\$ 5,065,116	\$ 11,470,143
Accrued interest payable	126,253	50,417	176,670
Payable from restricted assets			
Due to residents	-	21,614	21,614
Long-term liabilities			
Due within one year	658,060	549,363	1,207,423
Due in more than one year	13,055,249	7,696,850	20,752,099
<b>Total Liabilities</b>	<b>\$ 20,244,589</b>	<b>\$ 13,383,360</b>	<b>\$ 33,627,949</b>
<b><u>Net Assets</u></b>			
Invested in capital assets - net of related debt	\$ 117,025,244	\$ 4,233,177	\$ 121,258,421
Restricted for			
General government	408,041	-	408,041
Public safety	428,350	-	428,350
Highways and streets	2,234,709	-	2,234,709
Debt service	1,229,033	-	1,229,033
Conservation of natural resources	49,390	-	49,390
Environmental trust fund - nonexpendable	8,998,125	-	8,998,125
Environmental improvements - expendable	481,257	-	481,257
Donor projects	-	19,815	19,815
Unrestricted	34,303,213	5,707,168	40,010,381
<b>Total Net Assets</b>	<b>\$ 165,157,362</b>	<b>\$ 9,960,160</b>	<b>\$ 175,117,522</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>
<b>Functions/Programs</b>		
<b>Governmental activities</b>		
General government	\$ 8,889,491	\$ 1,388,832
Public safety	9,531,755	681,175
Highways and streets	15,149,043	1,199,995
Sanitation	1,748,765	517,001
Human services	14,587,326	732,888
Health	1,606,776	619,213
Culture and recreation	965,738	16,962
Conservation of natural resources	2,699,889	1,460,863
Economic development	953,507	-
Interest	306,431	-
<b>Total governmental activities</b>	<b>\$ 56,438,721</b>	<b>\$ 6,616,929</b>
<b>Business-type activities</b>		
Nursing Home	\$ 9,543,692	\$ 9,623,073
Itasca Resource Center	510,339	412,474
Itasca Medical Care	32,022,529	32,022,529
<b>Total business-type activities</b>	<b>\$ 42,076,560</b>	<b>\$ 42,058,076</b>
<b>Total</b>	<b>\$ 98,515,281</b>	<b>\$ 48,675,005</b>

**General Revenues**

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

**Contributions to permanent fund**

**Total general revenues and contributions**

**Change in Net Assets**

**Net Assets - Beginning**

**Net Assets - Ending**

**EXHIBIT 2**

<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Assets</b>		
<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ 753,280	\$ 564,752	\$ (6,182,627)	\$ -	\$ (6,182,627)
1,571,204	-	(7,279,376)	-	(7,279,376)
5,872,303	4,206,869	(3,869,876)	-	(3,869,876)
98,579	912,340	(220,845)	-	(220,845)
7,847,118	-	(6,007,320)	-	(6,007,320)
606,224	-	(381,339)	-	(381,339)
211,849	-	(736,927)	-	(736,927)
584,448	-	(654,578)	-	(654,578)
671,508	-	(281,999)	-	(281,999)
-	-	(306,431)	-	(306,431)
<b>\$ 18,216,513</b>	<b>\$ 5,683,961</b>	<b>\$ (25,921,318)</b>	<b>\$ -</b>	<b>\$ (25,921,318)</b>
\$ -	\$ -	\$ -	\$ 79,381	\$ 79,381
-	-	-	(97,865)	(97,865)
-	-	-	-	-
<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (18,484)</b>	<b>\$ (18,484)</b>
<b>\$ 18,216,513</b>	<b>\$ 5,683,961</b>	<b>\$ (25,921,318)</b>	<b>\$ (18,484)</b>	<b>\$ (25,939,802)</b>
		\$ 20,845,241	\$ -	\$ 20,845,241
		904,055	-	904,055
		47,069	-	47,069
		650,006	-	650,006
		6,893,899	18,192	6,912,091
		5,485	10,437	15,922
		2,333,821	332,364	2,666,185
		707,886	-	707,886
		1,209,341	-	1,209,341
		<b>\$ 33,596,803</b>	<b>\$ 360,993</b>	<b>\$ 33,957,796</b>
		<b>\$ 7,675,485</b>	<b>\$ 342,509</b>	<b>\$ 8,017,994</b>
		<b>157,481,877</b>	<b>9,617,651</b>	<b>167,099,528</b>
		<b>\$ 165,157,362</b>	<b>\$ 9,960,160</b>	<b>\$ 175,117,522</b>

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**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 11,338,636	\$ 4,155,703	\$ 1,913,657
Petty cash and change funds	9,670	50	350
Undistributed cash in agency funds	458,789	328,601	590,895
Taxes receivable - prior	219,085	173,672	163,309
Special assessments receivable - prior	-	-	-
Accounts receivable	27,487	31,765	12,892
Accrued interest receivable	720,245	-	-
Due from other funds	789,124	454,852	9,343
Due from other governments	517,390	4,458,738	1,247,680
Loans receivable	-	-	-
Inventories	5,531	1,405,939	-
<b>Total Assets</b>	<b><u>\$ 14,085,957</u></b>	<b><u>\$ 11,009,320</u></b>	<b><u>\$ 3,938,126</u></b>
<b><u>Liabilities and Fund Balance</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 292,865	\$ 139,639	\$ 466,374
Salaries payable	499,959	191,720	218,971
Escheat property payable	16,365	-	-
Contracts payable	-	50,982	-
Due to other funds	13,097	-	455,966
Due to other governments	63,895	23,815	494,326
Deferred revenue - unavailable	290,511	3,434,447	467,969
<b>Total Liabilities</b>	<b><u>\$ 1,176,692</u></b>	<b><u>\$ 3,840,603</u></b>	<b><u>\$ 2,103,606</u></b>
<b>Fund Balance</b>			
Reserved for			
Inventories	\$ 5,531	\$ 1,405,939	\$ -
Recorder's equipment purchases	-	-	-
County property recorder's fee	-	-	-
Enhanced 911	390,683	-	-
Election equipment	52,864	-	-
Permit to carry gun fees	37,667	-	-
Environmental improvements	-	-	-
Title III federal forest funds	49,390	-	-
Unreserved, undesignated	12,373,130	5,762,778	1,834,520
Unreserved, reported in nonmajor			
Special revenue funds	-	-	-
Debt service fund	-	-	-
<b>Total Fund Balance</b>	<b><u>\$ 12,909,265</u></b>	<b><u>\$ 7,168,717</u></b>	<b><u>\$ 1,834,520</u></b>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 14,085,957</u></b>	<b><u>\$ 11,009,320</u></b>	<b><u>\$ 3,938,126</u></b>

**EXHIBIT 3**

<b>Forfeited Tax</b>	<b>Capital Projects</b>	<b>Environmental Permanent</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 3,831,481	\$ 4,422,750	\$ 9,479,382	\$ 6,661,814	\$ 41,803,423
-	-	-	325	10,395
-	-	-	119,907	1,498,192
-	-	-	55,575	611,641
-	-	-	129,248	129,248
4,698,720	2,324	-	62,606	4,835,794
-	-	-	-	720,245
-	-	-	2,303,026	3,556,345
-	672,075	-	10,015	6,905,898
-	107,000	-	-	107,000
-	-	-	-	1,411,470
<b>\$ 8,530,201</b>	<b>\$ 5,204,149</b>	<b>\$ 9,479,382</b>	<b>\$ 9,342,516</b>	<b>\$ 61,589,651</b>
\$ 337	\$ 1,044,594	\$ -	\$ 108,782	\$ 2,052,591
-	-	-	42,249	952,899
-	-	-	-	16,365
-	-	-	-	50,982
2,932,266	-	-	451,098	3,852,427
862,784	-	-	-	1,444,820
4,487,208	778,508	-	184,823	9,643,466
<b>\$ 8,282,595</b>	<b>\$ 1,823,102</b>	<b>\$ -</b>	<b>\$ 786,952</b>	<b>\$ 18,013,550</b>
\$ -	\$ -	\$ -	\$ -	\$ 1,411,470
-	145,599	-	-	145,599
-	209,578	-	-	209,578
-	-	-	-	390,683
-	-	-	-	52,864
-	-	-	-	37,667
-	-	9,479,382	-	9,479,382
-	-	-	-	49,390
247,606	3,025,870	-	-	23,243,904
-	-	-	7,326,531	7,326,531
-	-	-	1,229,033	1,229,033
<b>\$ 247,606</b>	<b>\$ 3,381,047</b>	<b>\$ 9,479,382</b>	<b>\$ 8,555,564</b>	<b>\$ 43,576,101</b>
<b>\$ 8,530,201</b>	<b>\$ 5,204,149</b>	<b>\$ 9,479,382</b>	<b>\$ 9,342,516</b>	<b>\$ 61,589,651</b>

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2006**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>43,576,101</b>
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.		124,165,244
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. See Note 2.A. for details.		7,778,366
Internal service funds are used by management to charge the costs of self-insurance to individual funds. Internal service fund assets and liabilities are included in governmental activities in the statement of net assets.		
Internal service fund net assets		2,722,580
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	\$ (7,140,000)	
Compensated absences	(5,818,676)	
Accrued interest payable	(126,253)	(13,084,929)
<b>Net assets of governmental activities (Exhibit 1)</b>		<b><u>\$ 165,157,362</u></b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>
<b>Revenues</b>			
Taxes	\$ 8,316,771	\$ 6,131,050	\$ 5,710,392
Special assessments	-	-	-
Licenses and permits	76,422	-	-
Intergovernmental	7,303,667	11,616,015	9,357,182
Charges for services	1,140,977	997,173	835,282
Fines and forfeits	71,260	-	-
Gifts and contributions	5,485	-	-
Investment earnings	1,682,673	-	-
Miscellaneous	624,584	403,183	492,764
<b>Total Revenues</b>	<b>\$ 19,221,839</b>	<b>\$ 19,147,421</b>	<b>\$ 16,395,620</b>
<b>Expenditures</b>			
<b>Current</b>			
General government	\$ 7,492,438	\$ -	\$ -
Public safety	8,184,053	-	-
Highways and streets	-	18,856,463	-
Sanitation	-	-	-
Human services	-	-	14,504,994
Health	118,002	-	1,549,574
Culture and recreation	565,043	-	-
Conservation of natural resources	264,925	-	-
Economic development	132,000	-	-
<b>Debt service</b>			
Principal	-	-	-
Interest	-	-	-
Administrative (fiscal) charges	-	-	-
<b>Total Expenditures</b>	<b>\$ 16,756,461</b>	<b>\$ 18,856,463</b>	<b>\$ 16,054,568</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 2,465,378</b>	<b>\$ 290,958</b>	<b>\$ 341,052</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	\$ 664,745	\$ 29,175	\$ 129,463
Transfers out	(1,145,289)	(50,000)	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (480,544)</b>	<b>\$ (20,825)</b>	<b>\$ 129,463</b>
<b>Net Change in Fund Balances</b>	<b>\$ 1,984,834</b>	<b>\$ 270,133</b>	<b>\$ 470,515</b>
<b>Fund Balances - January 1</b>	<b>10,922,831</b>	<b>6,331,589</b>	<b>1,364,005</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>1,600</b>	<b>566,995</b>	<b>-</b>
<b>Fund Balances - December 31</b>	<b>\$ 12,909,265</b>	<b>\$ 7,168,717</b>	<b>\$ 1,834,520</b>

**EXHIBIT 5**

<b>Forfeited Tax</b>	<b>Capital Projects</b>	<b>Environmental Permanent</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ -	\$ -	\$ 1,629,320	\$ 21,787,533
-	-	-	912,057	912,057
-	-	-	510	76,932
-	150,000	-	679,944	29,106,808
-	276,279	-	509,963	3,759,674
-	-	-	-	71,260
-	-	-	-	5,485
-	-	541,878	41,759	2,266,310
3,541,520	33,406	367,517	436,860	5,899,834
<b>\$ 3,541,520</b>	<b>\$ 459,685</b>	<b>\$ 909,395</b>	<b>\$ 4,210,413</b>	<b>\$ 63,885,893</b>
\$ 862,784	\$ 354,745	\$ -	\$ 491,301	\$ 9,201,268
-	1,355,272	-	528,872	10,068,197
-	-	-	1,905,345	20,761,808
-	81,158	-	1,562,802	1,643,960
-	-	-	-	14,504,994
-	-	-	-	1,667,576
-	-	-	372,702	937,745
1,546,189	-	180,138	651,989	2,643,241
-	821,507	-	-	953,507
-	-	-	1,120,000	1,120,000
-	-	-	316,128	316,128
-	-	-	431	431
<b>\$ 2,408,973</b>	<b>\$ 2,612,682</b>	<b>\$ 180,138</b>	<b>\$ 6,949,570</b>	<b>\$ 63,818,855</b>
<b>\$ 1,132,547</b>	<b>\$ (2,152,997)</b>	<b>\$ 729,257</b>	<b>\$ (2,739,157)</b>	<b>\$ 67,038</b>
\$ -	\$ -	\$ -	\$ 2,246,137	\$ 3,069,520
(1,720,564)	(6,833)	-	(147,138)	(3,069,824)
<b>\$ (1,720,564)</b>	<b>\$ (6,833)</b>	<b>\$ -</b>	<b>\$ 2,098,999</b>	<b>\$ (304)</b>
\$ (588,017)	\$ (2,159,830)	\$ 729,257	\$ (640,158)	\$ 66,734
835,623	5,540,877	8,750,125	9,195,722	42,940,772
-	-	-	-	568,595
<b>\$ 247,606</b>	<b>\$ 3,381,047</b>	<b>\$ 9,479,382</b>	<b>\$ 8,555,564</b>	<b>\$ 43,576,101</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ 66,734**

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. For details of the adjustment, See Note 2.B. 268,110

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

Expenditures for general capital assets and infrastructure	\$ 10,336,210	
Current year depreciation	<u>(4,121,087)</u>	6,215,123

In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the capital assets disposed of. (158,589)

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		1,120,000

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	\$ 10,933	
Amortization of deferred issuance charges	(805)	
Change in compensated absences	(146,042)	
Change in inventories	<u>568,595</u>	432,681

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net (expense) revenue of the internal service funds is reported with governmental activities.

Change in net assets of the Internal Service Fund		<u>(268,574)</u>
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**Change in net assets of governmental activities (Exhibit 2) \$ 7,675,485**

**PROPRIETARY FUNDS**

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 7**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2006**

	<b>Business-Type Activities - Enterprise Funds</b>				<b>Governmental Activities</b>
	<b>Nursing Home</b>	<b>Itasca Medical Care</b>	<b>Itasca Resource Center (Nonmajor)</b>	<b>Totals</b>	<b>Internal Service Fund</b>
<b>Assets</b>					
<b>Current assets</b>					
Cash and pooled investments	\$ 733,471	\$ 8,278,041	\$ 561,523	\$ 9,573,035	\$ 3,424,421
Petty cash and change funds	1,356	-	-	1,356	-
Accounts receivable - net	1,386,799	1,188,606	3,360	2,578,765	72,015
Accrued interest receivable	-	-	-	-	3,047
Due from other funds	-	-	296,082	296,082	-
Inventories	40,057	-	-	40,057	-
Prepaid items	51,520	-	8,273	59,793	-
<b>Total current assets</b>	<b>\$ 2,213,203</b>	<b>\$ 9,466,647</b>	<b>\$ 869,238</b>	<b>\$ 12,549,088</b>	<b>\$ 3,499,483</b>
<b>Restricted assets</b>					
Cash and pooled investments	\$ 347,048	\$ -	\$ -	\$ 347,048	\$ -
Resident trust funds	21,614	-	-	21,614	-
<b>Total restricted assets</b>	<b>\$ 368,662</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 368,662</b>	<b>\$ -</b>
<b>Noncurrent assets</b>					
Deferred debt issue costs	\$ 125,846	\$ -	\$ -	\$ 125,846	\$ -
Capital assets					
Nondepreciable	22,496	-	256,800	279,296	-
Depreciable - net	7,841,115	835,299	1,344,214	10,020,628	-
<b>Total noncurrent assets</b>	<b>\$ 7,989,457</b>	<b>\$ 835,299</b>	<b>\$ 1,601,014</b>	<b>\$ 10,425,770</b>	<b>\$ -</b>
<b>Total Assets</b>	<b>\$ 10,571,322</b>	<b>\$ 10,301,946</b>	<b>\$ 2,470,252</b>	<b>\$ 23,343,520</b>	<b>\$ 3,499,483</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 7  
(Continued)**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2006**

	<u>Business-Type Activities - Enterprise Funds</u>				<u>Governmental Activities</u>
	<u>Nursing Home</u>	<u>Itasca Medical Care</u>	<u>Itasca Resource Center (Nonmajor)</u>	<u>Totals</u>	<u>Internal Service Fund</u>
<b><u>Liabilities</u></b>					
<b>Current liabilities</b>					
Accounts payable	\$ 235,660	\$ 568,003	\$ 3,026	\$ 806,689	\$ 19,864
Salaries payable	83,067	177,694	-	260,761	2,406
Compensated absences payable - current	304,363	-	-	304,363	-
Claims and judgments payable - current	-	3,971,412	-	3,971,412	-
Due to other governments	26,254	-	-	26,254	-
Accrued interest payable	50,417	-	-	50,417	-
General obligation bonds payable - current	170,000	-	-	170,000	-
Revenue bonds payable - current	75,000	-	-	75,000	-
<b>Total current liabilities</b>	<b>\$ 944,761</b>	<b>\$ 4,717,109</b>	<b>\$ 3,026</b>	<b>\$ 5,664,896</b>	<b>\$ 22,270</b>
<b>Current liabilities payable from restricted assets</b>					
Due to residents	\$ 21,614	\$ -	\$ -	\$ 21,614	\$ -
<b>Noncurrent liabilities</b>					
Compensated absences payable	\$ 321,111	\$ -	\$ -	\$ 321,111	\$ -
Claims and judgments payable	-	-	-	-	754,633
General obligation bonds payable	969,137	-	-	969,137	-
Provider settlements	-	2,191,602	-	2,191,602	-
Revenue bonds payable	4,215,000	-	-	4,215,000	-
<b>Total noncurrent liabilities</b>	<b>\$ 5,505,248</b>	<b>\$ 2,191,602</b>	<b>\$ -</b>	<b>\$ 7,696,850</b>	<b>\$ 754,633</b>
<b>Total Liabilities</b>	<b>\$ 6,471,623</b>	<b>\$ 6,908,711</b>	<b>\$ 3,026</b>	<b>\$ 13,383,360</b>	<b>\$ 776,903</b>
<b><u>Net Assets</u></b>					
Invested in capital assets - net of related debt	\$ 2,632,163	\$ -	\$ 1,601,014	\$ 4,233,177	\$ -
Restricted for other purposes	19,815	-	-	19,815	-
Unrestricted	1,447,721	3,393,235	866,212	5,707,168	2,722,580
<b>Total Net Assets</b>	<b>\$ 4,099,699</b>	<b>\$ 3,393,235</b>	<b>\$ 2,467,226</b>	<b>\$ 9,960,160</b>	<b>\$ 2,722,580</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 8**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Business-Type Activities - Enterprise Funds				Governmental Activities
	Nursing Home	Itasca Medical Care	Itasca Resource Center (Nonmajor)	Totals	Internal Service Fund
<b>Operating Revenues</b>					
Charges for services	\$ -	\$ -	\$ 412,474	\$ 412,474	\$ -
Patient services revenues	7,684,297	-	-	7,684,297	-
Insurance dividends	-	-	-	-	198,332
Miscellaneous	1,938,776	528,194	-	2,466,970	444,262
Capitation revenue	-	31,494,335	-	31,494,335	-
<b>Total Operating Revenues</b>	<b>\$ 9,623,073</b>	<b>\$ 32,022,529</b>	<b>\$ 412,474</b>	<b>\$ 42,058,076</b>	<b>\$ 642,594</b>
<b>Operating Expenses</b>					
Capitation expense	\$ -	\$ 529,355	\$ -	\$ 529,355	\$ -
Other medical expense	-	2,844,549	-	2,844,549	-
Pharmacy claims expense	-	4,019,315	-	4,019,315	-
Medical claims expense	-	22,166,276	-	22,166,276	-
Employee benefits and payroll taxes	1,258,030	-	-	1,258,030	-
Professional services	-	-	147,597	147,597	29,439
Nursing services	3,401,685	-	-	3,401,685	-
Plant operations	974,265	-	-	974,265	-
Claims paid	-	-	-	-	798,719
Administration and fiscal services	805,328	2,463,034	-	3,268,362	-
Other care-related	338,788	-	-	338,788	-
Other services and charges	836,019	-	-	836,019	-
Supplies	-	-	32,071	32,071	368
Payroll	-	-	-	-	52,659
Employee benefits	-	-	-	-	20,508
Travel	-	-	-	-	1,101
Telephone	-	-	9,024	9,024	409
Utilities	-	-	53,939	53,939	-
Fuel	-	-	15,953	15,953	-
Insurance	-	-	-	-	70,248
Staff training	-	-	-	-	2,720
Licenses and dues	-	-	-	-	2,168
Postage	-	-	-	-	101
Vehicle expense	-	-	-	-	543
Other property and related costs	60,357	-	-	60,357	-
Laundry	114,213	-	-	114,213	-
Dietary	839,779	-	-	839,779	-
Housekeeping	213,033	-	-	213,033	-
Amortization	8,320	-	-	8,320	-
Depreciation	388,189	-	234,269	622,458	-
Repairs	-	-	17,486	17,486	-
<b>Total Operating Expenses</b>	<b>\$ 9,238,006</b>	<b>\$ 32,022,529</b>	<b>\$ 510,339</b>	<b>\$ 41,770,874</b>	<b>\$ 978,983</b>
<b>Operating Income (Loss)</b>	<b>\$ 385,067</b>	<b>\$ -</b>	<b>\$ (97,865)</b>	<b>\$ 287,202</b>	<b>\$ (336,389)</b>

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

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 8  
(Continued)**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service Fund
	Nursing Home	Itasca Medical Care	Itasca Resource Center (Nonmajor)	Totals	
<b>Nonoperating Revenues (Expenses)</b>					
Intergovernmental	\$ 18,192	\$ -	\$ -	\$ 18,192	\$ -
Interest income	7,242	325,122	-	332,364	67,511
Contributions and donations	10,437	-	-	10,437	-
Interest expense	(305,686)	-	-	(305,686)	-
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ (269,815)</b>	<b>\$ 325,122</b>	<b>\$ -</b>	<b>\$ 55,307</b>	<b>\$ 67,511</b>
<b>Income (Loss) Before Transfers</b>	<b>\$ 115,252</b>	<b>\$ 325,122</b>	<b>\$ (97,865)</b>	<b>\$ 342,509</b>	<b>\$ (268,878)</b>
Transfers in	-	-	-	-	304
<b>Change in Net Assets</b>	<b>\$ 115,252</b>	<b>\$ 325,122</b>	<b>\$ (97,865)</b>	<b>\$ 342,509</b>	<b>\$ (268,574)</b>
<b>Net Assets - Beginning</b>	<b>3,984,447</b>	<b>3,068,113</b>	<b>2,565,091</b>	<b>9,617,651</b>	<b>2,991,154</b>
<b>Net Assets - Ending</b>	<b>\$ 4,099,699</b>	<b>\$ 3,393,235</b>	<b>\$ 2,467,226</b>	<b>\$ 9,960,160</b>	<b>\$ 2,722,580</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 9**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
Increase (Decrease) in Cash and Cash Equivalents**

	<b>Business-Type Activities - Enterprise Funds</b>				<b>Governmental Activities</b>
	<b>Nursing Home</b>	<b>Itasca Medical Care</b>	<b>Itasca Resource Center (Nonmajor)</b>	<b>Totals</b>	<b>Internal Service Fund</b>
<b>Cash Flows from Operating Activities</b>					
Receipts from customers and users	\$ 10,082,219	\$ -	\$ 412,474	\$ 10,494,693	\$ -
Receipts from internal services provided	-	-	-	-	408,447
Receipts from capitation and other	-	32,022,529	-	32,022,529	-
Receipts from other operating revenue	-	-	-	-	198,332
Payments to suppliers	(4,748,961)	-	(386,584)	(5,135,545)	(579,740)
Payments to employees	(4,074,680)	-	-	(4,074,680)	(72,898)
Payments to providers, suppliers, and employees	-	(28,934,496)	-	(28,934,496)	-
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 1,258,578</b>	<b>\$ 3,088,033</b>	<b>\$ 25,890</b>	<b>\$ 4,372,501</b>	<b>\$ (45,859)</b>
<b>Cash Flows from Noncapital Financing Activities</b>					
Contributions and donations	\$ 10,437	\$ -	\$ -	\$ 10,437	\$ -
Nursing Home payment adjustment received	18,192	-	-	18,192	-
Transfers in	-	-	-	-	304
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>\$ 28,629</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 28,629</b>	<b>\$ 304</b>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Acquisition of capital assets	\$ (86,375)	\$ (405,436)	\$ (184,898)	\$ (676,709)	\$ -
Principal and interest paid on general obligation revenue bonds	(217,140)	-	-	(217,140)	-
Principal and interest paid on revenue bonds	(325,050)	-	-	(325,050)	-
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>\$ (628,565)</b>	<b>\$ (405,436)</b>	<b>\$ (184,898)</b>	<b>\$ (1,218,899)</b>	<b>\$ -</b>
<b>Cash Flows from Investing Activities</b>					
Interest received	\$ 7,242	\$ 325,122	\$ -	\$ 332,364	\$ 65,244
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 665,884</b>	<b>\$ 3,007,719</b>	<b>\$ (159,008)</b>	<b>\$ 3,514,595</b>	<b>\$ 19,689</b>
<b>Cash and Cash Equivalents Beginning</b>	<b>415,991</b>	<b>5,270,322</b>	<b>720,531</b>	<b>6,406,844</b>	<b>3,404,732</b>
<b>Ending</b>	<b>\$ 1,081,875</b>	<b>\$ 8,278,041</b>	<b>\$ 561,523</b>	<b>\$ 9,921,439</b>	<b>\$ 3,424,421</b>

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

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 9  
(Continued)**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
Increase (Decrease) in Cash and Cash Equivalents**

	<u>Business-Type Activities - Enterprise Funds</u>				<u>Governmental Activities Internal Service Fund</u>
	<u>Nursing Home</u>	<u>Itasca Medical Care</u>	<u>Itasca Resource Center (Nonmajor)</u>	<u>Totals</u>	
<b>Cash and Cash Equivalents - Exhibit 7</b>					
Cash and pooled investments	\$ 733,471	\$ 8,278,041	\$ 561,523	\$ 9,573,035	\$ 3,424,421
Petty cash and change funds	1,356	-	-	1,356	-
Restricted cash and pooled investments	347,048	-	-	347,048	-
<b>Total Cash and Cash Equivalents</b>	<b><u>\$ 1,081,875</u></b>	<b><u>\$ 8,278,041</u></b>	<b><u>\$ 561,523</u></b>	<b><u>\$ 9,921,439</u></b>	<b><u>\$ 3,424,421</u></b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>					
<b>Operating income (loss)</b>	<b><u>\$ 385,067</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (97,865)</u></b>	<b><u>\$ 287,202</u></b>	<b><u>\$ (336,389)</u></b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>					
Depreciation expense	\$ 388,189	\$ -	\$ 234,269	\$ 622,458	\$ -
Amortization expense	7,486	-	-	7,486	-
(Increase) decrease in					
Accounts receivable	432,892	(88,265)	-	344,627	(35,815)
Due from other funds	-	-	(113,468)	(113,468)	-
Inventories	(8,789)	-	-	(8,789)	-
Prepaid items	57,825	-	8,275	66,100	-
Increase (decrease) in					
Accounts payable	(13,773)	75,168	(5,321)	56,074	18,188
Salaries payable	12,447	-	-	12,447	269
Compensated absences payable	(29,020)	-	-	(29,020)	-
Due to other governments	26,254	-	-	26,254	(46,442)
Claims payable	-	3,081,303	-	3,081,303	354,330
Other current liabilities	-	19,827	-	19,827	-
<b>Total adjustments</b>	<b><u>\$ 873,511</u></b>	<b><u>\$ 3,088,033</u></b>	<b><u>\$ 123,755</u></b>	<b><u>\$ 4,085,299</u></b>	<b><u>\$ 290,530</u></b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b><u>\$ 1,258,578</u></b>	<b><u>\$ 3,088,033</u></b>	<b><u>\$ 25,890</u></b>	<b><u>\$ 4,372,501</u></b>	<b><u>\$ (45,859)</u></b>

**FIDUCIARY FUNDS**

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 10**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2006**

	<b>Investment Trust</b>	<b>Agency</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 8,497	\$ 2,134,957
Investments	191,000	-
Receivables		
Interest	1,926	-
Due from other governments	-	21,706
	<b>\$ 201,423</b>	<b>\$ 2,156,663</b>
<b><u>Liabilities</u></b>		
Taxes collected in advance	\$ -	\$ 23,248
Due to other governments	-	2,133,415
	<b>\$ -</b>	<b>\$ 2,156,663</b>
<b><u>Net Assets</u></b>		
Net assets held in trust for participants	<b>\$ 201,423</b>	

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

***EXHIBIT 11***

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Investment Trust</u>
<b><u>Additions</u></b>	
Investment earnings	\$ 9,924
<b><u>Deductions</u></b>	
Distributions to participants	<u>23,917</u>
<b>Change in Net Assets</b>	<b>\$ (13,993)</b>
<b>Net Assets - Beginning of the Year</b>	<u><b>215,416</b></u>
<b>Net Assets - End of the Year</b>	<u><u><b>\$ 201,423</b></u></u>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006

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, 2006. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so.

A. Financial Reporting Entity

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

Blended Component Units

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

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

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Blended Component Units (Continued)

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

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

Joint Ventures

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

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

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

B. Basic Financial Statements

1. Government-Wide Statements

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

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

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

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

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

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

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

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

The County reports the following major proprietary funds:

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

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

Additionally, the County reports the following fund types:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2006, 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 2006 were \$2,686,756.

3. Receivables and Payables

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

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

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

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

4. Inventories and Prepaid Items

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

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

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

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

5. Restricted Assets

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

6. Capital Assets

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

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

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

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

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

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

7. Compensated Absences

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

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

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

8. Deferred Revenue

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

9. Long-Term Obligations

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

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

9. Long-Term Obligations (Continued)

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

10. Fund Equity

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

11. Use of Estimates

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

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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2. Reconciliations

A. Governmental Funds Balance Sheet and Statement of Net Assets

Exhibit 4 provides a reconciliation between fund balances as reported in the governmental funds balance sheet and net assets--governmental activities as reported in the statement of net assets. One element of that reconciliation is "other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds." The details of this \$7,778,366 are as follows:

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

Deferred revenue	\$	9,643,466
Due to other governments		1,865,100
Adjustment to Increase Fund Balances to Arrive at Net Assets--Governmental Activities	\$	7,778,366

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

Exhibit 6 is a reconciliation between the increase in governmental funds fund balance and the increase in net assets--governmental activities. One element of that increase is "in the funds, under the modified accrual basis, receivables not available for expenditures are deferred. In the statement of activities, those revenues are recognized when earned." The adjustment to revenues is the increase (decrease) in revenues deferred as unavailable. The details of the \$268,110 adjustment are:

Deferred revenue at December 31, 2006	\$	9,643,466
Deferred revenue at December 31, 2005		(10,217,181)
Decrease in deferred revenue	\$	(573,715)
Add: decrease in deferred revenue attributable to forfeited tax sales, reported as due to other governments		841,825
Adjustment to Change in Fund Balances to Arrive at Change in Net Assets--Governmental Activities	\$	268,110

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Cash and pooled investments	\$ 56,310,822
Restricted assets	
Cash and pooled investments	347,048
Fiduciary funds	
Cash and pooled investments	
Investment trust funds	8,497
Agency funds	2,134,957
Investments	
Investment trust funds	<u>191,000</u>
Total Cash and Investments	<u>\$ 58,992,324</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 all County deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds. At December 31, 2006, the County had \$1,383,937 of deposits not covered by collateral as required by Minn. Stat. § 118A.03.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better, irrevocable standby 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.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has a policy requiring certificates of deposit to be collateralized in accordance with Minnesota statutes. The policy requires collateral to be deposited in the name of Itasca County and subject to release by the County Auditor/Treasurer. As of December 31, 2006, \$1,383,937 of the primary government's bank balances of \$59,732,481 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$ 1,383,937</u>
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b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute. At December 31, 2006, the County had investments of \$433,138 in the Franklin Fund Mutual Fund rated AAA by Standard and Poor's.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. To minimize this risk, it is the County's policy to investigate brokers/dealers' credit worthiness prior to investment. Brokers/dealers must be certified by the National Association of Securities Dealers and must provide asset protection of \$500,000 through the Securities Investor Protection Corporation and at least another \$2,500,000 supplemental insurance protection.

At December 31, 2006, none of Itasca County's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County does not have a policy regarding the concentration of credit risk. At December 31, 2006, the County's investment in the Franklin Fund Mutual Fund is the only individual investment greater than five percent of the County's portfolio. The mutual fund is nine percent.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's investment balances at December 31, 2006, and the information relating to potential investment risks:

Investment Type	Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
Investment pools/mutual funds			
Franklin Fund Mutual Fund	9%	N/A	\$ 433,138
Negotiable certificates of deposit			
Bangor Savings Bank	< 5%	1/29/07	\$ 97,902
Broadway Bank	< 5%	2/12/07	98,901
First Financial Bank	< 5%	4/23/07	97,804
First National Bank	< 5%	5/29/07	97,804
Sky Bank	< 5%	6/22/07	97,804
Pacific Capital Bank	< 5%	6/25/07	97,804
Penn Federal Savings Bank	< 5%	6/25/07	97,804
Discover Bank	< 5%	7/30/07	96,902
Guaranty Bank	< 5%	8/20/07	97,559
Provident Bank	< 5%	9/10/07	94,846
Premier Bank	< 5%	9/17/07	49,912
Volkswagen Bank	< 5%	9/24/07	96,700
First United Bank	< 5%	9/28/07	96,504
Sunflower Bank	< 5%	9/28/07	96,504
Capital One Bank - Glen Allen, VA	< 5%	10/29/07	96,411
Riggs Bank - McLean, VA	< 5%	10/29/07	97,512
Morgan Stanley	< 5%	11/08/07	93,831
GMAC Automotive Bank	< 5%	11/19/07	96,478
Bank of Coweta	< 5%	11/28/07	96,741
American National Bank	< 5%	1/16/08	97,030
Libertyville BK & TR CO ILL	< 5%	2/14/08	98,244
EverBank	< 5%	2/26/08	95,649
Countrywide Bank	< 5%	2/26/08	96,608
Camden National Bank	< 5%	3/10/08	95,466
Intercredit Bank	< 5%	3/26/08	95,318
Doral Bank - Puerto Rico	< 5%	3/31/08	95,295
BMW Bank	< 5%	4/14/08	95,676
Tower Bank & Trust	< 5%	4/23/08	97,489
Black Mountain Community	< 5%	5/16/08	99,672
Amore Bank	< 5%	5/27/08	95,495
R-G Crown Bank	< 5%	5/27/08	95,495
Banko Bilbao Vizcaya	< 5%	9/08/08	95,442
HSBC Bank	< 5%	9/08/08	95,365
TIB Bank	< 5%	11/10/08	98,599
First Business Bank	< 5%	11/10/08	96,057
Integra Bank	< 5%	11/10/08	96,057
Montgomery First National Bank	< 5%	12/22/08	49,530
Farm Bureau Bank	< 5%	1/13/09	98,043

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Concentration Risk <u>Over 5 Percent of Portfolio</u>	Interest Rate Risk <u>Maturity Date</u>	Carrying (Fair) Value
Lehman Brothers Bank	< 5%	2/17/09	96,219
MinnWest Bank	< 5%	4/13/09	96,682
Parke Bank	< 5%	4/20/09	98,677
Lakeside Bank	< 5%	4/21/09	98,677
New Century Bank	< 5%	4/21/09	96,783
Great Bank	< 5%	5/26/09	99,088
Macatawa Bank	< 5%	7/29/10	39,086
Total negotiable certificates of deposit			\$ 4,207,465
Total investments			\$ 4,640,603
Deposits			54,339,970
Petty cash and change funds			11,751
Total Investments and Deposits			\$ 58,992,324

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

2. Receivables

Receivables as of December 31, 2006, for the County's governmental activities and business-type activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 611,641	\$ -
Special assessments	129,248	-
Due from other governments	6,905,898	-
Accounts	4,907,809	-
Interest	723,292	-
Loans	107,000	97,000
Total Governmental Activities	\$ 13,384,888	\$ 97,000

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities Accounts	\$ 2,578,765	\$ -

3. Capital Assets

Governmental Activities

Governmental capital asset activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,120,596	\$ -	\$ -	\$ 1,120,596
Construction in progress	150,610	931,601	555,500	526,711
Total capital assets not depreciated	\$ 1,271,206	\$ 931,601	\$ 555,500	\$ 1,647,307
Capital assets depreciated				
Buildings	\$ 25,096,133	\$ 555,500	\$ -	\$ 25,651,633
Machinery, furniture, and equipment	15,568,371	1,873,184	532,781	16,908,774
Infrastructure	116,835,119	7,531,425	-	124,366,544
Total capital assets depreciated	\$ 157,499,623	\$ 9,960,109	\$ 532,781	\$ 166,926,951
Less: accumulated depreciation for				
Buildings	\$ 7,590,660	\$ 586,862	\$ -	\$ 8,177,522
Machinery, furniture, and equipment	9,317,426	1,149,360	374,192	10,092,594
Infrastructure	23,754,033	2,384,865	-	26,138,898
Total accumulated depreciation	\$ 40,662,119	\$ 4,121,087	\$ 374,192	\$ 44,409,014
Total capital assets depreciated, net	\$ 116,837,504	\$ 5,839,022	\$ 158,589	\$ 122,517,937
Governmental Activities Capital Assets, Net	\$ 118,108,710	\$ 6,770,623	\$ 714,089	\$ 124,165,244

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

Business-type capital asset activity for the County Nursing Home at September 30, 2006, Itasca Medical Center at December 31, 2006, and the Itasca Resource Center at December 31, 2006, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 279,296	\$ -	\$ -	\$ 279,296
Capital assets depreciated				
Buildings	\$ 13,629,561	\$ 217,197	\$ -	\$ 13,846,758
Improvements other than buildings	169,269	4,750	-	174,019
Machinery, furniture, and equipment	1,826,579	454,763	-	2,281,342
Total capital assets depreciated	\$ 15,625,409	\$ 676,710	\$ -	\$ 16,302,119
Less: accumulated depreciation for				
Buildings	\$ 4,851,410	\$ 497,843	\$ -	\$ 5,349,253
Improvements other than buildings	107,984	6,431	-	114,415
Machinery, furniture, and equipment	699,637	118,186	-	817,823
Total accumulated depreciation	\$ 5,659,031	\$ 622,460	\$ -	\$ 6,281,491
Total capital assets depreciated, net	\$ 9,966,378	\$ 54,250	\$ -	\$ 10,020,628
Business-Type Activities				
Capital Assets, Net	\$ 10,245,674	\$ 54,250	\$ -	\$ 10,299,924

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

Governmental Activities	
General government	\$ 182,679
Public safety	355,875
Highways and streets, including depreciation of infrastructure assets	3,329,302
Human services	48,488
Sanitation	101,441
Culture and recreation	41,542
Conservation of natural resources	61,760
Total Depreciation Expense - Governmental Activities	\$ 4,121,087

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities	
Nursing Home	\$ 388,189
Itasca Resource Center	<u>234,271</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 622,460</u>

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

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

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

On March 1, 1997, Itasca County entered into a 5-year lease agreement with the State of Minnesota to occupy 3,985 square feet of office space for a rental rate of \$12.75 per square foot annually. On December 18, 2001, Itasca County amended the lease to continue through February 27, 2007, with the same terms and conditions set forth in the original lease.

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

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

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

Minimum future rents on non-cancelable leases are:

Year Ending December 31		
2007	\$	278,118
2008		269,649
2009		269,649
2010		269,649
2011		269,649
After 2011		28,287
Total	\$	1,385,001

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2006, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	Purpose
General	Health and Human Services Forfeited Tax	\$ 124,379 <u>664,745</u>	Reimbursement for services Apportionment of net proceeds
Total due to General Fund		<u>\$ 789,124</u>	
Road and Bridge	General Nonmajor governmental fund	\$ 3,754 <u>451,098</u>	Reimbursement for services Road maintenance charges
Total due to Road and Bridge Fund		<u>\$ 454,852</u>	
Health and Human Services	General	<u>\$ 9,343</u>	Reimbursement for services
Nonmajor governmental funds	Health and Human Services Forfeited Tax	\$ 35,505 <u>2,267,521</u>	Reimbursement of expenses Apportionment of net proceeds
Total due to nonmajor governmental funds		<u>\$ 2,303,026</u>	

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
Itasca Resource Center Enterprise Fund	Health and Human Services	\$ 296,082	Reimbursement for services
Total Due To/From Other Funds		<u>\$ 3,852,427</u>	

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2006, consisted of the following:

Transfers to General Fund from Forfeited Tax Fund	\$ 664,745	Distribute net proceeds
Transfers to Road and Bridge Fund from General Fund	\$ 29,175	Distribute tobacco settlement
Transfers to Health and Human Services Fund from		
General Fund	\$ 28,871	Distribute tobacco settlement
Capital Projects	6,833	Reimbursement for equipment purchase
Nonmajor governmental funds	<u>93,759</u>	Provide funding and transfer interest
Transfers to Health and Human Services Fund	<u>\$ 129,463</u>	
Transfers to nonmajor governmental funds from		
General Fund	\$ 1,086,939	Provide funding, distribute tobacco settlement
Road and Bridge	50,000	Provide funding
Forfeited Tax Fund	1,055,819	Distribute net proceeds
Other nonmajor governmental funds	<u>53,379</u>	Provide funding
Total transfers to nonmajor governmental funds	<u>\$ 2,246,137</u>	
Transfer to Internal Service Fund from General Fund	<u>\$ 304</u>	Provide funding
Total Interfund Transfers	<u>\$ 3,069,824</u>	

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2006, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 2,072,455	\$ 806,689
Salaries	955,305	260,761
Escheat property	16,365	-
Contracts	50,982	-
Due to other governments	3,309,920	26,254
Claims and judgments	-	3,971,412
	\$ 6,405,027	\$ 5,065,116
Total Payables		

2. Other Postemployment Benefits - Retirees

In addition to the benefits described in the Pension Plan note, the County provides postemployment health care benefits, in accordance with state statutes, to all County employees who retire from the County and meet age and years of service requirements. Currently, 205 retirees meet these eligibility requirements. The County pays 100 percent of single and 50 percent of dependent health insurance premiums for eligible retirees. Employees hired after January 1, 2000, are limited to \$20,000 maximum for retirement health insurance premiums. The County contributes various amounts toward retirees' medical insurance costs depending on retirees' ages and coverage. Expenditures for postemployment health care benefits, recognized as medical insurance premiums, are incurred by the County. During the year, expenditures of \$1,238,370 and \$302,855 from the Severance Pay Special Revenue Fund and the Health and Human Services Special Revenue Fund, respectively, were recognized for postemployment health care; expenses of \$98,793 were recognized from the County Nursing Home Enterprise Fund.

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

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Governmental Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2006</u>
General obligation bonds					
2002 G.O. Capital Improvement Bonds	2017	\$220,000 - \$835,000	2.50 - 4.80	\$ 8,300,000	\$ 7,140,000

Business-Type Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance September 30, 2006</u>
General obligation bonds					
1998 G.O. Crossover Refunding Bonds	2012	\$135,000 - \$210,000	4.10 - 4.85	\$ 1,880,000	\$ 1,140,000
2003 Gross Revenue Nursing Home Bonds	2033	\$70,000 - \$305,000	2.50 - 6.25	4,435,000	4,290,000
Total general obligation bonds				\$ 6,315,000	\$ 5,430,000
Less: unamortized discount					(863)
Total General Obligation Bonds, Net					\$ 5,429,137

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2006, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2007	\$ 500,000	\$ 294,382
2008	525,000	276,045
2009	550,000	255,745
2010	575,000	233,658
2011	605,000	209,755
2012 - 2016	3,550,000	620,631
2017	835,000	20,040
Total	\$ 7,140,000	\$ 1,910,256

Business-Type Activities

Year Ending September 30	General Obligation Crossover Refunding Bonds		Gross Revenue Nursing Home Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 170,000	\$ 49,755	\$ 75,000	\$ 247,612
2008	175,000	41,905	80,000	244,700
2009	185,000	33,532	80,000	241,400
2010	195,000	24,554	85,000	237,787
2011	205,000	15,054	90,000	233,782
2012 - 2016	210,000	5,092	515,000	1,096,714
2017 - 2021	-	-	670,000	936,515
2022 - 2026	-	-	900,000	702,025
2027 - 2031	-	-	1,205,000	380,850
2032 - 2033	-	-	590,000	37,500
Total	\$ 1,140,000	\$ 169,892	\$ 4,290,000	\$ 4,358,885

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 8,260,000	\$ -	\$ 1,120,000	\$ 7,140,000	\$ 500,000
Compensated absences	5,672,634	146,042	-	5,818,676	158,060
Claims and judgments	400,303	656,716	302,386	754,633	-
Governmental Activities Long-Term Liabilities	<u>\$ 14,332,937</u>	<u>\$ 802,758</u>	<u>\$ 1,422,386</u>	<u>\$ 13,713,309</u>	<u>\$ 658,060</u>

Long-term liabilities for internal service funds are included as part of the above totals. For the Internal Service Fund, \$754,633 of claims and judgments payable are included in the amounts for the governmental activities at year-end.

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 1,300,000	\$ -	\$ 160,000	\$ 1,140,000	\$ 170,000
Gross revenue bonds	4,365,000	-	75,000	4,290,000	75,000
Less: deferred amounts for issuance discounts	(1,011)	-	(148)	(863)	-
Total bonds payable	\$ 5,663,989	\$ -	\$ 234,852	\$ 5,429,137	\$ 245,000
Compensated absences	654,494	-	29,020	625,474	304,363
Provider settlements	300,285	1,891,317	-	2,191,602	-
Business-Type Activities Long-Term Liabilities	<u>\$ 6,618,768</u>	<u>\$ 1,891,317</u>	<u>\$ 263,872</u>	<u>\$ 8,246,213</u>	<u>\$ 549,363</u>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Conduit Debt

In 2004, the County issued \$9,980,000 of Industrial Development Revenue Bonds to provide financial assistance to Charles K. Blandin Foundation, a Minnesota nonprofit corporation, to be used to assist the Grand Itasca Clinic and Hospital in the construction of a new hospital and clinic deemed to be in the public interest. The bonds are payable solely from revenues of the Foundation. The County is not obligated in any manner for repayment of the bonds. Accordingly, the bonds will not be reported as liabilities in the County's financial statements. The balance of \$8,955,000 is outstanding at December 31, 2006.

In 2006, the County issued \$1,250,000 of industrial development revenue notes to provide financial assistance to North Homes, Inc., a Minnesota nonprofit corporation, to be used to construct a 16-bed group home for youth with mental disabilities and to refinance and renovate a transitional home for boys, which homes are deemed to be in the public interest. The notes are payable solely from the revenues of the nonprofit corporation. The County is not obligated in any manner for repayment of the notes. Accordingly, the notes will not be reported as liabilities in the County's financial statements. The amount of notes outstanding at December 31, 2006, was \$1,245,401.

7. Itasca Medical Care (IMCare) Liabilities

Claims Payable

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

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities

7. Itasca Medical Care (IMCare) Liabilities

Claims Payable (Continued)

	2006	2005
Balance - Beginning of Year	\$ 2,781,426	\$ 2,573,320
Amount incurred, related to		
Prior years	(1,100,152)	(713,267)
Current year	30,659,647	21,969,964
Amount paid, related to		
Prior years	(1,644,002)	(1,798,205)
Current year	(26,725,507)	(19,250,386)
Balance - End of Year	\$ 3,971,412	\$ 2,781,426

Stop Loss Insurance

IMCare is self-insured and does not contract with an outside insurance company for stop loss insurance. Itasca County has guaranteed the solvency of IMCare.

Provider Settlement

IMCare contracts with providers in Itasca County to provide health care services to its enrolled members. Under these arrangements, the providers receive an interim claim payment based upon fee for services schedules. These providers are at risk to the degree specified in their contracts and the net effect of all other revenues and expenses. The final settlement occurs when all claims are considered settled. Also included in provider settlements is any potential settlements related to Medicare Part D.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

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

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

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at [www.mnpera.org](http://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 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. Public Employees Police and Fire Fund members were required to contribute 7.00 percent of their annual covered salary in 2006. That rate increased to 7.80 percent in 2007. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2006 and 2007:

	2006	2007
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.00	6.25
Public Employees Police and Fire Fund	10.50	11.70
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2006, 2005, and 2004, 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
2006	\$ 1,146,698	\$ 363,579	\$ 30,507
2005	1,023,190	318,097	22,202
2004	998,512	325,112	6,860

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

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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4. Pension Plans

B. Defined Contribution Plan (Continued)

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, 2006, 2005, and 2004, were \$10,478, \$10,082, and \$10,216, 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 the MCIT Property and Casualty Divisions. The County self-insures for workers' compensation through its Risk Management Internal Service Fund. For group health insurance, the County belongs to Arrowhead Procure. For other risks, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

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

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The County's Risk Management Internal Service Fund is used to manage the workers' compensation claims which are self-insured by the County. Premiums are paid into the Risk Management Internal Service Fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. The County has not had an actuarial study to determine a claims liability for workers' compensation, but the claims administrator, a private company, has estimated a liability of \$754,633, which does not include incurred but not reported claims, at December 31, 2006. This amount is shown as a liability in the Risk Management Internal Service Fund. The County is a member of the Workers' Compensation Reinsurance Association. Under the plan, the County is liable for the first \$390,000 toward any claim arising from a single occurrence. The Association covers claims over \$390,000.

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

	Year Ended December 31	
	2006	2005
Unpaid Claims, Beginning of Fiscal Year	\$ 400,303	\$ 399,364
Incurred claims	656,716	268,424
Claims payments	(302,386)	(267,485)
Unpaid Claims, End of Fiscal Year	\$ 754,633	\$ 400,303

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

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2006, expenditures exceeded appropriations in the following funds:

General Fund	\$ 1,601,634
Road and Bridge Special Revenue Fund	4,117,851
Solid Waste Management Special Revenue Fund	185,829

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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

C. 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.

D. Joint Ventures

Itasca County-Grand Rapids Airport Commission

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

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

A summary of the financial information of the Itasca County-Grand Rapids Airport Commission's government-wide statements for the year ended December 31, 2006 was:

Total Assets	\$	5,050,151
Total Liabilities		455,660
Total Net Assets		4,594,491
Total Revenues		891,241
Total Expenses		524,423
Change in Net Assets		366,818

Itasca County contributed \$120,000 during 2006 to the Itasca County-Grand Rapids Airport Commission.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Itasca County-Grand Rapids Airport Commission (Continued)

Separate financial information can be obtained from:

Airport Manager  
420 North Pokegama Avenue  
Grand Rapids, Minnesota 55744

Aitkin-Itasca-Koochiching Community Health Services Board

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

The CHS Board is composed of two members from Aitkin and Koochiching Counties and three members from Itasca County, each appointed by the participating counties. Funding is obtained through federal, state, local, and private sources. Itasca County receives all funds and appropriates to each county its share through its agency fund. Itasca County records its revenues and expenditures in the Health and Human Services Special Revenue Fund. CHS agency fund assets and liabilities were \$147,532 as of December 31, 2006.

No separate financial statements are available.

Northeast Minnesota Office of Job Training

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

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

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

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

A summary of the financial information of the Northeast Minnesota Office of Job Training's government-wide statements for June 30, 2006, was:

Total Assets	\$	2,749,976
Total Liabilities		1,182,416
Total Net Assets		1,567,560
Total Revenues		4,940,929
Total Expenses		4,915,961
Change in Net Assets		24,968

Separate financial information can be obtained from:

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

Minnesota Counties Information Systems

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

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

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Minnesota Counties Information Systems (Continued)

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

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

Separate financial information can be obtained from:

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

Mississippi Headwaters Board

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

The Mississippi Headwaters Board consists of eight members, one appointed from each participating county. Cass County maintains the accounting records of the Board. Funding is obtained through federal, state, local, and private sources. Itasca County provided \$1,500 to this organization during 2006.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Mississippi Headwaters Board (Continued)

A summary of the financial information of the Mississippi Headwaters Board's government-wide statements for the fiscal year ended June 30, 2005 (the most recent available), was:

Total Assets	\$	120,282
Total Liabilities		3,993
Total Net Assets		116,289
Total Revenues		171,874
Total Expenses		94,799
Change in Net Assets		77,075

Separate financial information can be obtained from:

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

Itasca County Family Service Collaborative

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

Control of the Collaborative is vested in a Board of Directors. The County has three members on the Board. Financing is provided by state and federal grants, appropriations from the Collaborative members, and miscellaneous revenues. Itasca County provided \$2,000 in funding to the Collaborative during 2006. Itasca County is the fiscal agent for the Collaborative, which is accounted for as an agency fund. Collaborative agency fund assets and liabilities were \$216,426 as of December 31, 2006.

No separate financial statements are available.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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

E. Jointly-Governed Organizations

Western Mesabi Mine Planning Board

The Western Mesabi Mine Planning Board is governed by a 14-member board, composed of one elected official appointed by each respective county board, city council, and township board that is a party to the agreement. During 2006, Itasca County paid \$200 for membership dues to the Western Mesabi Mine Planning Board.

KOOTASCA Community Action, Inc.

KOOTASCA Community Action, Inc., is governed by an 18-member board appointed equally from each county. As discussed in Note 3.A.4., KOOTASCA Community Action, Inc. rents space from Itasca County.

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Becker, Beltrami, Clay, Clearwater, Itasca, Kittson, Lake, Lake of the Woods, Mahnomon, Marshall, McLeod, Morrison, Norman, Pennington, Polk, Red Lake, and Roseau Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, composed of ten directors, each with an alternate, who are appointed annually by each respective county board. Itasca County paid \$2,100 for membership dues in 2006.

South Central Itasca County Intergovernmental Planning Board

The County established a joint powers board under the authority of Minn. Stat. § 394.232, subd. 4, in order to implement the Community Based Planning Act which relates to planning for growth in the area governed by the participating parties. The members of the joint planning district are Itasca County; the Cities of Cohasset, Grand Rapids, and La Prairie; the towns of Harris, Arbo, and Trout Lake; and Independent School District 318.

The Planning Board is governed by an eight-member board. Each entity appoints one representative to the Board. Financing is provided by grants and membership fees. Itasca County paid \$2,000 in membership dues to this Board in 2006.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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

F. Related Organization

Housing and Redevelopment Authority of Itasca County

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

G. Tax-Forfeited Land

The County manages approximately 300,000 acres of state-owned tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs, such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Schedule 1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 10,056,232	\$ 10,056,232	\$ 8,316,771	\$ (1,739,461)
Licenses and permits	53,950	53,950	76,422	22,472
Intergovernmental	3,082,897	3,082,897	7,303,667	4,220,770
Charges for services	840,525	840,525	1,140,977	300,452
Fines and forfeits	51,250	51,250	71,260	20,010
Gifts and contributions	500	500	5,485	4,985
Investment earnings	650,000	650,000	1,682,673	1,032,673
Miscellaneous	465,897	465,897	624,584	158,687
<b>Total Revenues</b>	<b>\$ 15,201,251</b>	<b>\$ 15,201,251</b>	<b>\$ 19,221,839</b>	<b>\$ 4,020,588</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 336,909	\$ 336,909	\$ 405,312	\$ (68,403)
Courts	90,744	90,744	103,881	(13,137)
Law library	56,900	56,900	33,787	23,113
County administration	465,007	465,007	410,555	54,452
County auditor	1,043,660	1,043,660	996,671	46,989
County assessor	859,582	859,582	839,423	20,159
Elections	136,000	136,000	653,838	(517,838)
Accounting and auditing	60,000	60,000	55,278	4,722
Data processing	602,428	602,428	603,032	(604)
Attorney	1,007,946	1,007,946	1,049,446	(41,500)
Recorder	416,400	416,400	425,846	(9,446)
Surveyor	453,966	453,966	464,808	(10,842)
Planning and zoning	476,000	476,000	407,951	68,049
Buildings and plant	904,492	904,492	892,165	12,327
Veterans service officer	146,597	146,597	150,445	(3,848)
<b>Total general government</b>	<b>\$ 7,056,631</b>	<b>\$ 7,056,631</b>	<b>\$ 7,492,438</b>	<b>\$ (435,807)</b>
<b>Public safety</b>				
Sheriff	\$ 3,155,386	\$ 3,155,386	\$ 3,489,970	\$ (334,584)
Boat and water safety	108,386	108,386	102,782	5,604
Emergency services	54,800	54,800	37,498	17,302
Coroner	31,200	31,200	31,053	147
Federal arrest grant	-	-	82,583	(82,583)
E-911 system	30,000	30,000	27,269	2,731
County jail	2,993,056	2,993,056	3,017,607	(24,551)
Victim assistance	65,341	65,341	61,796	3,545
Probation and parole	902,556	902,556	850,661	51,895
Civil defense	136,516	136,516	155,894	(19,378)
Safe havens grant	50,000	50,000	169,521	(119,521)
Transitional housing grant	-	-	72,479	(72,479)
Snowmobile safety	12,300	12,300	25,594	(13,294)
Other public safety	5,400	5,400	59,346	(53,946)
<b>Total public safety</b>	<b>\$ 7,544,941</b>	<b>\$ 7,544,941</b>	<b>\$ 8,184,053</b>	<b>\$ (639,112)</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Schedule 1*  
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Health</b>				
Itasca County health network	\$ -	\$ -	\$ 118,002	\$ (118,002)
<b>Culture and recreation</b>				
Historical society	\$ 18,000	\$ 18,000	\$ 18,000	\$ -
Fairgrounds	96,783	96,783	96,790	(7)
Humane society	20,000	20,000	8,199	11,801
Snowmobile and ski trail maintenance	6,000	6,000	435,054	(429,054)
Other	7,000	7,000	7,000	-
<b>Total culture and recreation</b>	<b>\$ 147,783</b>	<b>\$ 147,783</b>	<b>\$ 565,043</b>	<b>\$ (417,260)</b>
<b>Conservation of natural resources</b>				
County extension	\$ 122,372	\$ 122,372	\$ 120,183	\$ 2,189
Soil and water conservation	90,000	90,000	-	90,000
Title III federal forest funds	-	-	94,404	(94,404)
Shoreland management	13,000	13,000	25,801	(12,801)
Other	48,100	48,100	24,537	23,563
<b>Total conservation of natural resources</b>	<b>\$ 273,472</b>	<b>\$ 273,472</b>	<b>\$ 264,925</b>	<b>\$ 8,547</b>
<b>Economic development</b>				
Airports	\$ 132,000	\$ 132,000	\$ 132,000	\$ -
<b>Total Expenditures</b>	<b>\$ 15,154,827</b>	<b>\$ 15,154,827</b>	<b>\$ 16,756,461</b>	<b>\$ (1,601,634)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>				
	<b>\$ 46,424</b>	<b>\$ 46,424</b>	<b>\$ 2,465,378</b>	<b>\$ 2,418,954</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 614,000	\$ 614,000	\$ 664,745	\$ 50,745
Transfers out	(1,306,423)	(1,306,423)	(1,145,289)	161,134
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (692,423)</b>	<b>\$ (692,423)</b>	<b>\$ (480,544)</b>	<b>\$ 211,879</b>
<b>Net Change in Fund Balance</b>	<b>\$ (645,999)</b>	<b>\$ (645,999)</b>	<b>\$ 1,984,834</b>	<b>\$ 2,630,833</b>
<b>Fund Balance - January 1</b>	<b>10,922,831</b>	<b>10,922,831</b>	<b>10,922,831</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>1,600</b>	<b>1,600</b>
<b>Fund Balance - December 31</b>	<b>\$ 10,276,832</b>	<b>\$ 10,276,832</b>	<b>\$ 12,909,265</b>	<b>\$ 2,632,433</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 5,950,330	\$ 5,950,330	\$ 6,131,050	\$ 180,720
Intergovernmental	7,488,682	7,488,682	11,616,015	4,127,333
Charges for services	848,000	848,000	997,173	149,173
Miscellaneous	51,600	51,600	403,183	351,583
<b>Total Revenues</b>	<b>\$ 14,338,612</b>	<b>\$ 14,338,612</b>	<b>\$ 19,147,421</b>	<b>\$ 4,808,809</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 446,903	\$ 446,903	\$ 465,783	\$ (18,880)
Maintenance	6,366,442	6,366,442	7,010,205	(643,763)
Construction	4,024,109	4,024,109	7,914,367	(3,890,258)
Equipment maintenance and shop	3,901,158	3,901,158	3,466,108	435,050
<b>Total Expenditures</b>	<b>\$ 14,738,612</b>	<b>\$ 14,738,612</b>	<b>\$ 18,856,463</b>	<b>\$ (4,117,851)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (400,000)</b>	<b>\$ (400,000)</b>	<b>\$ 290,958</b>	<b>\$ 690,958</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ -	\$ 29,175	\$ 29,175
Transfers out	-	-	(50,000)	(50,000)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (20,825)</b>	<b>\$ (20,825)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (400,000)</b>	<b>\$ (400,000)</b>	<b>\$ 270,133</b>	<b>\$ 670,133</b>
<b>Fund Balance - January 1</b>	<b>6,331,589</b>	<b>6,331,589</b>	<b>6,331,589</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>566,995</b>	<b>566,995</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,931,589</b>	<b>\$ 5,931,589</b>	<b>\$ 7,168,717</b>	<b>\$ 1,237,128</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
HEALTH AND HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 5,720,411	\$ 5,720,411	\$ 5,710,392	\$ (10,019)
Intergovernmental	10,727,659	10,727,659	9,357,182	(1,370,477)
Charges for services	697,676	697,676	835,282	137,606
Interest on investments	15,000	15,000	-	(15,000)
Miscellaneous	317,200	317,200	492,764	175,564
<b>Total Revenues</b>	<b>\$ 17,477,946</b>	<b>\$ 17,477,946</b>	<b>\$ 16,395,620</b>	<b>\$ (1,082,326)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 4,575,187	\$ 4,575,187	\$ 3,508,964	\$ 1,066,223
Social services	11,363,537	11,363,537	10,996,030	367,507
<b>Total human services</b>	<b>\$ 15,938,724</b>	<b>\$ 15,938,724</b>	<b>\$ 14,504,994</b>	<b>\$ 1,433,730</b>
<b>Health</b>				
Nursing service	\$ 1,537,518	\$ 1,537,518	\$ 1,543,240	\$ (5,722)
Environmental health	6,504	6,504	6,334	170
<b>Total health</b>	<b>\$ 1,544,022</b>	<b>\$ 1,544,022</b>	<b>\$ 1,549,574</b>	<b>\$ (5,552)</b>
<b>Total Expenditures</b>	<b>\$ 17,482,746</b>	<b>\$ 17,482,746</b>	<b>\$ 16,054,568</b>	<b>\$ 1,428,178</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (4,800)</b>	<b>\$ (4,800)</b>	<b>\$ 341,052</b>	<b>\$ 345,852</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	4,800	4,800	129,463	124,663
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 470,515</b>	<b>\$ 470,515</b>
<b>Fund Balance - January 1</b>	<b>1,364,005</b>	<b>1,364,005</b>	<b>1,364,005</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,364,005</b>	<b>\$ 1,364,005</b>	<b>\$ 1,834,520</b>	<b>\$ 470,515</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2006**

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1. Budgetary Information

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

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

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

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2006, expenditures exceeded appropriations in the following funds:

General Fund	\$ 1,601,634	Expenditures for ski and snowmobile trails, several large federal grants in public safety and elections, and Title III project expenditures are not budgeted. These expenditures are offset by intergovernmental revenues.
Road and Bridge Special Revenue Fund	4,117,851	Higher than anticipated construction expenditures, offset by higher intergovernmental revenues.

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**SUPPLEMENTARY INFORMATION**

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

The Forest Resources Special Revenue Fund is used to account for the operations of the County forests and payments from the state in lieu of taxes.

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

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

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

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

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

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**Statement 1**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<b>Special Revenue (Statement 3)</b>	<b>Debt Service</b>	<b>Total Nonmajor Governmental Funds</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 5,471,597	\$ 1,190,217	\$ 6,661,814
Petty cash and change funds	325	-	325
Undistributed cash in agency funds	81,091	38,816	119,907
Taxes receivable			
Prior	27,907	27,668	55,575
Special assessments receivable			
Prior	129,248	-	129,248
Accounts receivable	62,606	-	62,606
Due from other funds	2,303,026	-	2,303,026
Due from other governments	10,015	-	10,015
	<b>\$ 8,085,815</b>	<b>\$ 1,256,701</b>	<b>\$ 9,342,516</b>
<b><u>Liabilities and Fund Balance</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 108,782	\$ -	\$ 108,782
Salaries payable	42,249	-	42,249
Due to other funds	451,098	-	451,098
Deferred revenue - unavailable	157,155	27,668	184,823
	<b>\$ 759,284</b>	<b>\$ 27,668</b>	<b>\$ 786,952</b>
<b>Fund Balance</b>			
Unreserved			
Designated for debt service	\$ -	\$ 1,229,033	\$ 1,229,033
Designated for severance	91,974	-	91,974
Undesignated	7,234,557	-	7,234,557
	<b>\$ 7,326,531</b>	<b>\$ 1,229,033</b>	<b>\$ 8,555,564</b>
	<b>\$ 8,085,815</b>	<b>\$ 1,256,701</b>	<b>\$ 9,342,516</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Statement 2*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Special Revenue (Statement 4)</u>	<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
<b>Revenues</b>			
Taxes	\$ 925,421	\$ 703,899	\$ 1,629,320
Special assessments	912,057	-	912,057
Licenses and permits	510	-	510
Intergovernmental	531,958	147,986	679,944
Charges for services	509,963	-	509,963
Investment earnings	41,759	-	41,759
Miscellaneous	436,860	-	436,860
<b>Total Revenues</b>	<b>\$ 3,358,528</b>	<b>\$ 851,885</b>	<b>\$ 4,210,413</b>
<b>Expenditures</b>			
<b>Current</b>			
General government	\$ 491,301	\$ -	\$ 491,301
Public safety	528,872	-	528,872
Highways and streets	1,905,345	-	1,905,345
Sanitation	1,562,802	-	1,562,802
Culture and recreation	372,702	-	372,702
Conservation of natural resources	651,989	-	651,989
<b>Debt service</b>			
Principal	-	1,120,000	1,120,000
Interest	-	316,128	316,128
Administrative (fiscal) charges	-	431	431
<b>Total Expenditures</b>	<b>\$ 5,513,011</b>	<b>\$ 1,436,559</b>	<b>\$ 6,949,570</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (2,154,483)</b>	<b>\$ (584,674)</b>	<b>\$ (2,739,157)</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	\$ 2,246,137	\$ -	\$ 2,246,137
Transfers out	(147,138)	-	(147,138)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 2,098,999</b>	<b>\$ -</b>	<b>\$ 2,098,999</b>
<b>Net Change in Fund Balance</b>	<b>\$ (55,484)</b>	<b>\$ (584,674)</b>	<b>\$ (640,158)</b>
<b>Fund Balance - January 1</b>	<b>7,382,015</b>	<b>1,813,707</b>	<b>9,195,722</b>
<b>Fund Balance - December 31</b>	<b>\$ 7,326,531</b>	<b>\$ 1,229,033</b>	<b>\$ 8,555,564</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Statement 3*

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS  
DECEMBER 31, 2006**

	<u>Forest Resources</u>	<u>Solid Waste Management</u>	<u>Unorganized Towns Road and Bridge</u>	<u>Health Education</u>	<u>Severance Pay</u>	<u>Total</u>
<b><u>Assets</u></b>						
Cash and pooled investments	\$ 2,033,552	\$ 423,673	\$ 2,064,372	\$ 950,000	\$ -	\$ 5,471,597
Petty cash and change funds	25	300	-	-	-	325
Undistributed cash in agency funds	-	25,171	55,920	-	-	81,091
Taxes receivable						
Prior	-	-	27,907	-	-	27,907
Special assessments receivable						
Prior	-	129,248	-	-	-	129,248
Accounts receivable	-	6,137	-	-	56,469	62,606
Due from other funds	2,133,188	-	134,333	-	35,505	2,303,026
Due from other governments	10,000	15	-	-	-	10,015
<b>Total Assets</b>	<b>\$ 4,176,765</b>	<b>\$ 584,544</b>	<b>\$ 2,282,532</b>	<b>\$ 950,000</b>	<b>\$ 91,974</b>	<b>\$ 8,085,815</b>
<b><u>Liabilities and Fund Balance</u></b>						
<b>Liabilities</b>						
Accounts payable	\$ 16,732	\$ 92,050	\$ -	\$ -	\$ -	\$ 108,782
Salaries payable	36,760	5,489	-	-	-	42,249
Due to other funds	-	-	451,098	-	-	451,098
Deferred revenue - unavailable	-	129,248	27,907	-	-	157,155
<b>Total Liabilities</b>	<b>\$ 53,492</b>	<b>\$ 226,787</b>	<b>\$ 479,005</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 759,284</b>
<b>Fund Balance</b>						
Unreserved						
Designated for severance	\$ -	\$ -	\$ -	\$ -	\$ 91,974	\$ 91,974
Undesignated	4,123,273	357,757	1,803,527	950,000	-	7,234,557
<b>Total Fund Balance</b>	<b>\$ 4,123,273</b>	<b>\$ 357,757</b>	<b>\$ 1,803,527</b>	<b>\$ 950,000</b>	<b>\$ 91,974</b>	<b>\$ 7,326,531</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 4,176,765</b>	<b>\$ 584,544</b>	<b>\$ 2,282,532</b>	<b>\$ 950,000</b>	<b>\$ 91,974</b>	<b>\$ 8,085,815</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Statement 4*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Forest Resources</u>	<u>Solid Waste Management</u>	<u>Unorganized Towns Road and Bridge</u>	<u>Health Education</u>	<u>Severance Pay</u>	<u>Total</u>
<b>Revenues</b>						
Taxes	\$ -	\$ 58	\$ 925,363	\$ -	\$ -	\$ 925,421
Special assessments	-	912,057	-	-	-	912,057
Licenses and permits	-	510	-	-	-	510
Intergovernmental	216,133	98,579	217,246	-	-	531,958
Charges for services	19,014	490,949	-	-	-	509,963
Investment earnings	-	-	-	41,759	-	41,759
Miscellaneous	19,618	25,542	-	-	391,700	436,860
<b>Total Revenues</b>	<b>\$ 254,765</b>	<b>\$ 1,527,695</b>	<b>\$ 1,142,609</b>	<b>\$ 41,759</b>	<b>\$ 391,700</b>	<b>\$ 3,358,528</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	\$ -	\$ -	\$ -	\$ -	\$ 491,301	\$ 491,301
Public safety	-	-	-	-	528,872	528,872
Highways and streets	-	-	1,397,461	-	507,884	1,905,345
Sanitation	-	1,562,802	-	-	-	1,562,802
Culture and recreation	372,702	-	-	-	-	372,702
Conservation of natural resources	549,976	-	-	-	102,013	651,989
<b>Total Expenditures</b>	<b>\$ 922,678</b>	<b>\$ 1,562,802</b>	<b>\$ 1,397,461</b>	<b>\$ -</b>	<b>\$ 1,630,070</b>	<b>\$ 5,513,011</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (667,913)</b>	<b>\$ (35,107)</b>	<b>\$ (254,852)</b>	<b>\$ 41,759</b>	<b>\$ (1,238,370)</b>	<b>\$ (2,154,483)</b>
<b>Other Financing Sources (Uses)</b>						
Transfers in	\$ 937,349	\$ -	\$ 134,333	\$ -	\$ 1,174,455	\$ 2,246,137
Transfers out	(53,379)	-	-	(93,759)	-	(147,138)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 883,970</b>	<b>\$ -</b>	<b>\$ 134,333</b>	<b>\$ (93,759)</b>	<b>\$ 1,174,455</b>	<b>\$ 2,098,999</b>
<b>Net Change in Fund Balance</b>	<b>\$ 216,057</b>	<b>\$ (35,107)</b>	<b>\$ (120,519)</b>	<b>\$ (52,000)</b>	<b>\$ (63,915)</b>	<b>\$ (55,484)</b>
<b>Fund Balance - January 1</b>	<b>3,907,216</b>	<b>392,864</b>	<b>1,924,046</b>	<b>1,002,000</b>	<b>155,889</b>	<b>7,382,015</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,123,273</b>	<b>\$ 357,757</b>	<b>\$ 1,803,527</b>	<b>\$ 950,000</b>	<b>\$ 91,974</b>	<b>\$ 7,326,531</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Schedule 4*

**BUDGETARY COMPARISON SCHEDULE  
FOREST RESOURCES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 185,808	\$ 185,808	\$ 216,133	\$ 30,325
Charges for services	71,948	71,948	19,014	(52,934)
Miscellaneous	11,504	11,504	19,618	8,114
<b>Total Revenues</b>	<b>\$ 269,260</b>	<b>\$ 269,260</b>	<b>\$ 254,765</b>	<b>\$ (14,495)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Culture and recreation</b>				
Promotion	\$ 110,000	\$ 110,000	\$ 140,000	\$ (30,000)
Parks	335,759	335,759	232,702	103,057
<b>Total culture and recreation</b>	<b>\$ 445,759</b>	<b>\$ 445,759</b>	<b>\$ 372,702</b>	<b>\$ 73,057</b>
<b>Conservation of natural resources</b>				
Timber development	\$ 75,500	\$ 75,500	\$ 35,417	\$ 40,083
Other	1,584,582	1,584,582	514,559	1,070,023
<b>Total conservation of natural resources</b>	<b>\$ 1,660,082</b>	<b>\$ 1,660,082</b>	<b>\$ 549,976</b>	<b>\$ 1,110,106</b>
<b>Total Expenditures</b>	<b>\$ 2,105,841</b>	<b>\$ 2,105,841</b>	<b>\$ 922,678</b>	<b>\$ 1,183,163</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (1,836,581)</b>	<b>\$ (1,836,581)</b>	<b>\$ (667,913)</b>	<b>\$ 1,168,668</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 1,799,752	\$ 1,799,752	\$ 937,349	\$ (862,403)
Transfers out	-	-	(53,379)	(53,379)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 1,799,752</b>	<b>\$ 1,799,752</b>	<b>\$ 883,970</b>	<b>\$ (915,782)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (36,829)</b>	<b>\$ (36,829)</b>	<b>\$ 216,057</b>	<b>\$ 252,886</b>
<b>Fund Balance - January 1</b>	<b>3,907,216</b>	<b>3,907,216</b>	<b>3,907,216</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,870,387</b>	<b>\$ 3,870,387</b>	<b>\$ 4,123,273</b>	<b>\$ 252,886</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Schedule 5*

**BUDGETARY COMPARISON SCHEDULE  
SOLID WASTE MANAGEMENT SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ -	\$ -	\$ 58	\$ 58
Special assessments	828,274	828,274	912,057	83,783
Licenses and permits	150	150	510	360
Intergovernmental	103,000	103,000	98,579	(4,421)
Charges for services	440,000	440,000	490,949	50,949
Miscellaneous	5,549	5,549	25,542	19,993
<b>Total Revenues</b>	<b>\$ 1,376,973</b>	<b>\$ 1,376,973</b>	<b>\$ 1,527,695</b>	<b>\$ 150,722</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Sanitation</b>				
Solid waste	1,376,973	1,376,973	1,562,802	(185,829)
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (35,107)</b>	<b>\$ (35,107)</b>
<b>Fund Balance - January 1</b>	<b>392,864</b>	<b>392,864</b>	<b>392,864</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 392,864</b>	<b>\$ 392,864</b>	<b>\$ 357,757</b>	<b>\$ (35,107)</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Schedule 6*

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,483,740	\$ 1,483,740	\$ 703,899	\$ (779,841)
Intergovernmental	-	-	147,986	147,986
<b>Total Revenues</b>	<b>\$ 1,483,740</b>	<b>\$ 1,483,740</b>	<b>\$ 851,885</b>	<b>\$ (631,855)</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 1,120,000	\$ 1,120,000	\$ 1,120,000	\$ -
Interest	363,740	363,740	316,128	47,612
Administrative (fiscal) charges	-	-	431	(431)
<b>Total Expenditures</b>	<b>\$ 1,483,740</b>	<b>\$ 1,483,740</b>	<b>\$ 1,436,559</b>	<b>\$ 47,181</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (584,674)</b>	<b>\$ (584,674)</b>
<b>Fund Balance - January 1</b>	<b>1,813,707</b>	<b>1,813,707</b>	<b>1,813,707</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,813,707</b>	<b>\$ 1,813,707</b>	<b>\$ 1,229,033</b>	<b>\$ (584,674)</b>

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## **FIDUCIARY FUNDS**

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**AGENCY FUNDS**

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

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Statement 5*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 1,567,546	\$ 56,823,454	\$ 56,835,175	\$ 1,555,825
Due from other governments	-	21,706	-	21,706
<b>Total Assets</b>	<b>\$ 1,567,546</b>	<b>\$ 56,845,160</b>	<b>\$ 56,835,175</b>	<b>\$ 1,577,531</b>
<b><u>Liabilities</u></b>				
Taxes collected in advance	\$ 19,053	\$ 23,248	\$ 19,053	\$ 23,248
Due to other governments	1,548,493	56,821,912	56,816,122	1,554,283
<b>Total Liabilities</b>	<b>\$ 1,567,546</b>	<b>\$ 56,845,160</b>	<b>\$ 56,835,175</b>	<b>\$ 1,577,531</b>
 <b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 175,028	\$ 7,678,575	\$ 7,677,697	\$ 175,906
<b><u>Liabilities</u></b>				
Due to other governments	\$ 175,028	\$ 7,678,575	\$ 7,677,697	\$ 175,906
 <b><u>CITIES AND TOWNS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 14,109,756	\$ 14,109,756	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 14,109,756	\$ 14,109,756	\$ -

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Statement 5  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>SCHOOL DISTRICTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 12,137,436	\$ 12,137,436	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 12,137,436	\$ 12,137,436	\$ -
 <b><u>SPECIAL DISTRICTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 15,515	\$ 1,555,036	\$ 1,554,403	\$ 16,148
<b><u>Liabilities</u></b>				
Due to other governments	\$ 15,515	\$ 1,555,036	\$ 1,554,403	\$ 16,148
 <b><u>ITASCA COUNTY FAMILY SERVICE COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 410,145	\$ 20,571	\$ 214,290	\$ 216,426
<b><u>Liabilities</u></b>				
Due to other governments	\$ 410,145	\$ 20,571	\$ 214,290	\$ 216,426

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Statement 5  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>COMMUNITY HEALTH SERVICES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 138,148	\$ 1,409,291	\$ 1,399,907	\$ 147,532
<b><u>Liabilities</u></b>				
Due to other governments	\$ 138,148	\$ 1,409,291	\$ 1,399,907	\$ 147,532
 <b><u>SOUTH CENTRAL ITASCA COUNTY PLANNING BOARD</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 20,655	\$ 12,100	\$ 9,635	\$ 23,120
<b><u>Liabilities</u></b>				
Due to other governments	\$ 20,655	\$ 12,100	\$ 9,635	\$ 23,120
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 2,327,037	\$ 93,746,219	\$ 93,938,299	\$ 2,134,957
Due from other governments	-	21,706	-	21,706
<b>Total Assets</b>	<b>\$ 2,327,037</b>	<b>\$ 93,767,925</b>	<b>\$ 93,938,299</b>	<b>\$ 2,156,663</b>
<b><u>Liabilities</u></b>				
Taxes collected in advance	\$ 19,053	\$ 23,248	\$ 19,053	\$ 23,248
Due to other governments	2,307,984	93,744,677	93,919,246	2,133,415
<b>Total Liabilities</b>	<b>\$ 2,327,037</b>	<b>\$ 93,767,925</b>	<b>\$ 93,938,299</b>	<b>\$ 2,156,663</b>

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**OTHER SCHEDULE**

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Schedule 7*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Governmental Funds</b>	<b>Enterprise Funds</b>	<b>Total</b>
<b>Shared Revenue</b>			
<b>State</b>			
Highway users tax	\$ 7,461,800	\$ -	\$ 7,461,800
County program aid	1,890,141	-	1,890,141
PERA rate reimbursement	82,819	-	82,819
Disparity reduction aid	163,169	-	163,169
Police aid	340,887	-	340,887
Taconite credit	629,151	-	629,151
Mobile home taconite credit	2,857	-	2,857
E-911	129,300	-	129,300
Market value credit aid	1,919,029	-	1,919,029
Supplemental aid	1,650,796	-	1,650,796
Casino revenue aid	24,210	-	24,210
	<b>\$ 14,294,159</b>	<b>\$ -</b>	<b>\$ 14,294,159</b>
<b>Total Shared Revenue</b>			
<b>Reimbursement for Services</b>			
Minnesota Department of Human Services	\$ 2,939,871	\$ -	\$ 2,939,871
	<b>\$ 2,939,871</b>	<b>\$ -</b>	<b>\$ 2,939,871</b>
<b>Payments</b>			
<b>Local</b>			
Local contributions	\$ 484,511	\$ -	\$ 484,511
Payments in lieu of taxes	650,006	-	650,006
	<b>\$ 1,134,517</b>	<b>\$ -</b>	<b>\$ 1,134,517</b>
<b>Total Payments</b>			
<b>Grants</b>			
<b>State</b>			
Minnesota Department of			
Corrections	\$ 268,575	\$ -	\$ 268,575
Public Safety	46,031	-	46,031
Transportation	261,951	-	261,951
Health	129,286	-	129,286
Natural Resources	584,448	-	584,448
Human Services	4,071,520	18,192	4,089,712
Veterans Services	4,200	-	4,200
Commerce	38,082	-	38,082
Water and Soil Resources Board	34,413	-	34,413
Office of Environmental Assistance	98,579	-	98,579
Iron Range Resources and Rehabilitation Board	150,000	-	150,000
	<b>\$ 5,687,085</b>	<b>\$ 18,192</b>	<b>\$ 5,705,277</b>
<b>Total State</b>			

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Schedule 7*  
*(Continued)*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Total</u>
<b>Grants (Continued)</b>			
<b>Federal</b>			
Department of			
Agriculture	\$ 487,443	\$ -	\$ 487,443
Interior	222,495	-	222,495
Justice	459,094	-	459,094
Transportation	1,937,028	-	1,937,028
Education	1,137	-	1,137
Health and Human Services	1,029,951	-	1,029,951
Homeland Security	349,276	-	349,276
Election Assistance Commission	564,752	-	564,752
<b>Total Federal</b>	<b>\$ 5,051,176</b>	<b>\$ -</b>	<b>\$ 5,051,176</b>
<b>Total State and Federal Grants</b>	<b>\$ 10,738,261</b>	<b>\$ 18,192</b>	<b>\$ 10,756,453</b>
<b>Total Intergovernmental Revenue</b>	<b>\$ 29,106,808</b>	<b>\$ 18,192</b>	<b>\$ 29,125,000</b>



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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**Schedule 8**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses unqualified opinions on the basic financial statements of Itasca County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Itasca County and are 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*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of Itasca 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 Itasca County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported by Section 510(a) of Office of Management and Budget (OMB) Circular A-133.
- G. The major programs are:
- |                                     |              |
|-------------------------------------|--------------|
| National Forest Lands Roads/Schools | CFDA #10.665 |
| Grants to Encourage Arrest Policies | CFDA #16.590 |
| Highway Planning and Construction   | CFDA #20.205 |
| Help America Vote Act               | CFDA #90.401 |
| Homeland Security Grant             | CFDA #97.067 |
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Itasca County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-5 Segregation of Duties

To provide for adequate internal control, the following duties should be segregated if possible:

- Bank reconciliations should be performed by someone who is independent of the cash collection and receipting function. If this is not possible, someone independent of the cash collection and receipting function should review the bank reconciliations.
- Individuals who collect and receipt cash should not also:
  - post cash receipts to the general ledger system,
  - process cash disbursements,
  - maintain the general ledger,
  - make bank deposits,
  - make wire transfers,
  - make general journal entries, or
  - prepare billings.
- Individuals who process vouchers for payments should not also:
  - print or sign checks or
  - make journal entries.

At Itasca County, bank reconciliations are prepared by County Treasurer's Office personnel who have access to cash and perform cash collection and receipting activities. Bank reconciliations are not reviewed by anyone who is independent of the cash handling functions. The same individuals who collect and receipt cash also make the bank deposits, and some individuals who can write receipts also have the capability to make journal entries. At the department level, there is a lack of segregation of duties between cash collection and billing functions.

We recommend the County segregate these functions as much as possible. If it is not possible to segregate these duties, Itasca County management should be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that the internal control policies and procedures are being performed by staff. One oversight procedure which could be implemented is to distribute detailed monthly revenue and expenditure reports to department heads and require them to affirm that they have reviewed the reports and concur with the revenues and expenditures reported for their department.

Client's Response:

*Bank reconciliations will be prepared by the Chief Accountant and reviewed and signed off by the County Auditor beginning May 2007. Individuals who collect and receipt cash will no longer have access to journal entry function.*

ITEMS ARISING THIS YEAR

06-1 Journal Entries

Itasca County limits access to the journal entry function on the Integrated Financial System (IFS) to select county employees. Two County courthouse employees and two Human Services employees have access to this function. However, for the Itasca Medical Care Enterprise Fund, we noted five employees had access to this function. Subsequent review of this function determined that only three employees at Itasca Medical Care needed to have this access.

Most journal entries are made by the Itasca County Chief Accountant and the Human Services Accounting Division Manager. The journal entries made by these employees are not reviewed or approved by anyone else.

The ability to make journal entries on the IFS general ledger system is a powerful function. It allows those employees with access to the journal entry function to make changes to the general ledger system. To prevent abuse of this function, it should be limited to those employees who have a logical need for this access. There should also be a procedure for review and approval of the journal entries made.

We recommend the County Auditor/Treasurer review the access to the journal entry function periodically to determine who has access to this function and if there is a logical need for that access. We also recommend a procedure be established to require review and approval of journal entries by someone other than the person making the journal

entries. This approval could be documented by signature on a journal entry form or a printed copy of the journal entry made. Supporting documentation should be attached to the journal entry or sufficient explanation included on the journal entry to explain why the journal entry is being made and who is making the journal entry. Journal entries should be filed in a manner that allows for their review should questions arise. A report should be generated from the IFS which lists all journal entries made. This report should be reviewed periodically by the person charged with review and approval of journal entries. Review of this report would be to ensure that no journal entries have been made that have not been submitted for review and approval.

Client's Response:

*The journal entry function is now limited to the County Auditor and the Chief Accountant.*

06-2 Internal Control Over Budgeting

The County Board has adopted a budget policy. A formal written budget policy should include policies such as:

- which funds require budgets,
- the legal level of control,
- when budgets can be modified by management and when budget modifications require Board approval, and
- the budgetary basis on which the budget is adopted.

Itasca County's budget policy does not indicate which funds are required to be budgeted, the budgetary basis, or the legal level of control.

The County's budget policy requires budget amendments to be approved by the County Board. Approved budget amendments should be entered into the IFS general ledger system. We noted during our audit that the revenue budget reported in the IFS for the Forest Resources Special Revenue Fund was \$60,559 higher than the County Board approved budget, and the expenditure budget was \$97,388 higher. No County Board approved budget amendments accounted for these budget changes.

During the year, County department heads are expected to monitor the departmental budgets for which they are responsible. Itasca County distributes monthly budget to actual reports to each department head. However, it is not known the extent to which department heads review these reports.

Monitoring of budgets should also be done periodically by the County Board. The County Board is not provided with periodic budget to actual reports.

We recommend the County Board amend its budget policy to include the elements recommended above to provide better internal control over the budget process. Budget amendments should be approved by the County Board and entered into the IFS system. The budget should be monitored on an ongoing basis by department heads and the County Board. Department heads and the County Board should indicate their review of budget to actual reports by signing off on them. The County Board should designate an employee to be responsible for entering budget amendments to the IFS and for verifying departmental and County Board review.

Client's Response:

*The budget policy for Itasca County will be reviewed and amended where necessary. All budget amendments will be approved by the County Board. Access to the budget entry menu will be limited to the Chief Accountant, the County Auditor, the Chief Accountant in HHS, and the Deputy Auditor in charge of the budget process.*

06-3 Preparation of Financial Statements

The County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal controls over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition was

caused by the County's decision that it is more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP.

We recommend the County obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If the County still intends to have the staff from the Office of the State Auditor assist in preparation then, at a minimum, they must identify and train individuals to obtain the expertise that can sufficiently review, understand, and approve the County's financial statements, including notes. As an alternative, the County could consider hiring an outside consultant to assist in preparing its basic financial statements.

Client's Response:

*Internal financial statements will be prepared internally by the end of 2008.*

06-4 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect misstatements of the financial statements on a timely basis. Statement on Auditing Standards (SAS) No. 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

During our audit, we proposed numerous adjustments that resulted in significant changes to the County's financial statements. The County provides cash basis financial statements and prepares some of the modified accrual information necessary to adjust the cash basis financial statements to the modified accrual basis. However, County staff do not have the time nor the governmental accounting expertise to prepare all of the information necessary to provide accurate financial statements. Therefore, audit adjustments were necessary to record additional receivables and payables found during the audit, record the fair value adjustment for cash and pooled investments, adjust fund balance reserves, adjust state-aid highway allotments, adjust timber receivables for uncollectible amounts, and make reclassification entries as necessary. Audit adjustments were also necessary to adjust modified accrual financial statements to the accrual basis for the government-wide financial statements.

We recommend that County staff review the trial balances and journal entries in detail to ensure they have an understanding of all of the audit adjustments made, so that in future audits, this information can be prepared by the County.

Client's Response:

*I will thoroughly review the trial balances and journal entries with the Chief Accountant so that future entries can be made prior to the annual audit.*

06-5 Accounting Policies and Procedures Manual

Itasca County maintains a policy handbook with all of the policies which have been adopted by the County Board. Although some of the policies in the handbook are accounting related policies, most of the policies are administrative in nature.

The County does not have a current and comprehensive accounting policies and procedures manual. All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures which make up the County's internal control system.

An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the County's internal control system and help to avoid circumvention of County policies.

We recommend the County establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

Client's Response:

*Itasca County will have an accounting procedures manual by the end of 2007.*

06-6 SSIS Segregation of Duties

In September 2006, the Itasca County Health and Human Services Department implemented the Minnesota Department of Human Services (DHS) newly-issued Social Service Information System Fiscal Payment (SSIS) software module. The County uses this module to pay vendors providing services to the various social service programs.

The software allows the County's SSIS system administrator flexibility in assigning staff access to the software. One basic objective of internal control is to provide for segregation of incompatible duties so that no single individual can establish a vendor, authorize a transaction, record the transaction, and obtain custody of the asset resulting from the transaction. The size of a department and the number of staff sometimes limit the application of adequate segregation of duties. County management must perform a risk assessment to determine if incompatible access exists that affects the internal control over the SSIS system. When it is not possible to limit an employee's incompatible access, mitigating controls should be implemented, such as independent review, to ensure that transactions are authorized and appropriate.

County management has not performed a risk assessment to determine if incompatible access exists since initially assigning staff access to the SSIS system.

We recommend that County management review staff's access to the SSIS system and identify those with incompatible or inappropriate access. If assigning incompatible access is unavoidable, management should develop appropriate mitigating controls to minimize the risk of undetected errors or fraud.

Client's Response:

*On 8/22/07, Roxanne Mertes, SSIS Administrator, Chris Worth, MIS staff very involved in SSIS, and Eric Villeneuve, Business/Fiscal Division Manager, met to look at the roles in SSIS and do a risk assessment. Originally we only had one role called Accounting Staff that our accounting personnel all had access to. It had the same level of accessibility for everyone. We have since set up specific roles for each person. Each role has the access that each worker needs. While that limits the amount of access for specific roles, some roles can still establish a vendor, authorize a transaction in SSIS, record the transaction in SSIS and obtain custody of the check that is printed. Because of the size of the Accounting Department we cannot completely remove that risk.*

*We do feel that we have established enough appropriate controls to minimize the risk of undetected errors. They are as follows:*

- 1. We have a Case Aide who completes an Out of Home Placement Report each month that ties out 4 warrant registers run in SSIS each month.*
- 2. The Warrant Registers get reviewed by a Division Manager each month when preparing a summarized board warrant report for the Board. The Board also signs off on the warrant registers each month. If a warrant register is not submitted for review it would be detected when the Auditor's Office completes the monthly bank reconciliation.*
- 3. We have several individuals who can view the other worker's payments in SSIS.*
- 4. Based on the Accounting Payments Role making payments, we do client billings.*
- 5. The actual paper invoices are signed off on by the appropriate supervisor.*
- 6. The expenditures are also reviewed quarterly when the SEAGR report is completed.*

*We feel that the risk involved in making SSIS payments are a no greater risk then the payments we make out of the IFS system. We also feel that if an inappropriate payment were made that it would be eventually detected.*

### **III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

#### **A. COMPLIANCE**

##### **PREVIOUSLY REPORTED ITEM RESOLVED**

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

In prior audits, we noted that the Itasca County Attorney's office was not keeping time records, as required by OMB Circular A-87, to support time charged to the Federal Arrest Grant. OMB Circular A-87 requires that, in instances where employees work on multiple activities or cost objectives, a distribution of their salaries or wages be supported by personnel activity reports. These reports should be prepared after the fact, account for the total activity of the employee, be prepared at least monthly, and be signed by the employee.

**Resolution**

Beginning in September 2005, the County Attorney's office is keeping time records of time spent relating to activities under the Federal Arrest Grant. For the 2006 audit year, adequate time records were kept.

B. INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

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

Itasca County is responsible for monitoring the activities of subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. There was very little subrecipient monitoring performed on the subrecipient for the Federal Arrest Grant, and no one at the County was assigned responsibility for performing this function.

**Resolution**

In 2006, the Chief Accountant was assigned responsibility for monitoring the subrecipient of the Federal Arrest Grant. A site visit was performed in the first quarter of 2007 and is planned for each quarter.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

00-1 Delinquent Taxes

The County accepts partial payments on delinquent taxes. Minnesota statutes allow partial payments for late taxes. As interpreted by the Minnesota Department of Revenue, however, Minnesota law requires delinquent taxes to be paid in total or paid by entire year.

We recommend that the County comply with this rule.

Client's Response:

*No adjustment to County policy is expected.*

05-3 Collateral to Secure Deposits

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

In the prior audit, the County had deposits at the First National Bank of Coleraine that were not adequately covered by collateral. This was also the case in the current audit. The amount of collateral required to secure deposits at the First National Bank of Coleraine at December 31, 2006, was \$1,381,720 more than the amount of collateral pledged.

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

Client's Response:

*Itasca County has a new policy requiring all financial institutions with county funds invested to provide a collateral report on a monthly basis. The Chief Accountant prepares a schedule of investments and collateral to the County Auditor for signature.*

ITEMS ARISING THIS YEAR

06-7 Broker Certifications

Minn. Stat. § 118A.04, Subd. 9, requires the County to annually obtain a certification from each broker with which the County invests in which the brokers acknowledges they have received the County's investment restrictions and agree to handle the County's account in accordance with the restrictions.

For 2006, Itasca County did not obtain a broker certification from Edward Jones.

We recommend the County obtain broker certifications annually in accordance with Minn. Stat. § 118A.04, subd. 9.

Client's Response:

*These certifications will be sent out annually.*

06-8 Performance Bonds

In 2006, Itasca County awarded a contract for \$119,008 for a flooring project. A performance and payment bond was not obtained from the contractor on this project. Minn. Stat. § 574.26 requires the County to obtain a performance and payment bond from a contractor in an amount not less than the contract price whenever a contract for the doing of public work exceeds \$75,000.

We recommend the County obtain performance and payment bonds on contracts when they are required by statutes.

Client's Response:

*A memo will be drafted to all department heads reminding them of Minn. Stat. § 574.26. This memo will need to be signed and returned.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Bidding (04-3)**

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

**Resolution**

In the current audit, all contracts we tested for bidding requirements were properly advertised for sealed bids. We did not find any contracts which should have been advertised for bids, but were not.

**Prompt Payment of Invoices (05-2)**

Minn. Stat. § 471.425 requires the County to make payment on vendor invoices according to the terms of the contract or within 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later. In our prior audit, we noted 5 of 25 vouchers tested that were not paid within the 35-day time period required by the statute.

**Resolution**

In September 2006, Itasca County began paying commissioner warrants twice a month rather than once a month. We noted no instances of late payments after this new procedure was implemented.

**B. OTHER ITEM FOR CONSIDERATION**

Other Postemployment Benefits (OPEB)

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

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

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

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

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

## **OTHER REQUIRED REPORTS**

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REBECCA OTTO  
STATE AUDITOR

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

Board of County Commissioners  
Itasca County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Itasca County as of and for the year ended December 31, 2006, and have issued our report thereon dated September 20, 2007. The financial statements include the Nursing Home Enterprise Fund as of and for the year ended September 30, 2006. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Itasca Medical Care Enterprise Fund, as described in our report on Itasca County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Itasca County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-5 and 06-1 through 06-6 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 06-4 to be a material weakness.

### Compliance and Other Matters

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

### Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Itasca County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 00-1, 05-3, 06-7, and 06-8.

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to Itasca County and are reporting it for that purpose.

Itasca County's written response to the significant deficiencies, material weakness, and legal compliance findings identified in our audit has not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within Itasca County, 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/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 20, 2007

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

Board of County Commissioners  
Itasca County

### Compliance

We have audited the compliance of Itasca County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. Itasca County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Itasca County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

### Internal Control Over Compliance

The management of Itasca County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Itasca County's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Itasca County as of and for the year ended December 31, 2006, and have issued our report thereon dated September 20, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. We did not audit the financial statements of the Itasca Medical Care Enterprise Fund, which were

audited by other auditors. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within the County, 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/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 20, 2007

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**Schedule 9**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Agriculture</b>				
Passed Through Aitkin-Itasca-Koochiching Community Health Services Board Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		\$ 148,940	\$ -
Passed Through Minnesota Department of Finance National Forest Lands Roads/Schools - 25% Payments to States	10.665		338,503	-
<b>Total U.S. Department of Agriculture</b>			<b>\$ 487,443</b>	<b>\$ -</b>
<b>U.S. Department of the Interior</b>				
Direct Payments in Lieu of Taxes	15.226		<b>\$ 222,495</b>	<b>\$ -</b>
<b>U.S. Department of Justice</b>				
Passed Through Minnesota Department of Public Safety Law Enforcement Assistance Grant	16.004		\$ 2,000	\$ -
Enforcing Underage Drinking Laws Program	16.727	9100-705	1,710	-
Direct Supervised Visitation, Safe Havens for Children	16.527		169,521	169,521
Grants to Encourage Arrest Policies	16.590		213,384	80,865
Transitional Housing Assistance	16.736		72,479	72,479
<b>Total U.S. Department of Justice</b>			<b>\$ 459,094</b>	<b>\$ 322,865</b>
<b>U.S. Department of Transportation</b>				
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	SP-31-629-15 SP-31-629-16	\$ 1,775,000	\$ -
Recreational Trails Program	20.219	0009-05-2A SP-31-663-20	177,437	-
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600		6,514	-
<b>Total U.S. Department of Transportation</b>			<b>\$ 1,958,951</b>	<b>\$ -</b>
<b>U.S. Department of Education</b>				
Passed Through Aitkin-Itasca-Koochiching Community Health Services Board Special Education Grants for Infants and Families with Disabilities	84.181		<b>\$ 1,137</b>	<b>\$ -</b>
<b>U.S. Election Assistance Commission</b>				
Passed Through Minnesota Secretary of State Help America Vote Act Grant	90.401	A86790	<b>\$ 564,752</b>	<b>\$ -</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Schedule 9  
(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Health and Human Services</b>				
Passed Through Aitkin-Itasca-Koochiching Community Health Services Board				
Disease Control and Prevention Investigation	93.283		\$ 55,994	\$ -
Maternal and Child Health	93.994		57,552	-
Passed Through Minnesota Department of Human Services				
Family Preservation - Title IV-B	93.556		36,965	-
Temporary Assistance for Needy Families (TANF)	93.558		428,907	-
Social Services Block Grant Title XX	93.667		326,433	-
Support for Emancipation and Living Functionally	93.674		4,967	-
Coordinated Care Planning Grant	93.958		93,280	-
Passed Through Minnesota Department of Education				
Child Care Mandatory and Matching Funds	93.596		21,155	-
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 1,025,253</b>	<b>\$ -</b>
<b>U.S. Department of Homeland Security</b>				
Passed Through Minnesota Department of Natural Resources				
Boating Safety Financial Assistance	97.012	A90565	\$ 28,473	\$ -
Passed Through Minnesota Department of Public Safety				
Emergency Management Performance Grant	97.042	2006-EM-E6-0038	19,641	-
Homeland Security Grant	97.067	2005-SHSP-738 2000-9936	301,162	-
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 349,276</b>	<b>\$ -</b>
<b>Total Federal Awards</b>			<b>\$ 5,068,401</b>	<b>\$ 322,865</b>

Notes to Schedule of Expenditures of Federal Awards

- The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Itasca County. The County's reporting entity is defined in Note 1 to the financial statements.
- The expenditures on this schedule are on the modified accrual basis of accounting. Due to timing differences in revenue recognition under the modified accrual basis, expenditures on this schedule do not equal federal revenues reported in the financial statements. In 2006, \$93,550 of prior year federal expenditures were recognized as revenues in the financial statements, and \$110,775 of current year federal expenditures were not recognized as revenues because they were not received within the period of availability.
- Pass-through grant numbers are presented for grants for which they have been assigned.