

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

ISANTI COUNTY
CAMBRIDGE, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

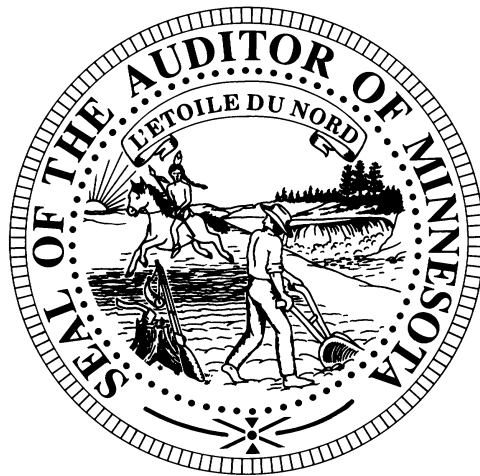
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Year Ended December 31, 2004



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

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2004**

			<u>Term Expires</u>
Elected			
Commissioners			
Board Member	George Larson	District 1	January 2007
Board Member	Larry L. Southerland	District 2	January 2005
Vice Chair	Tom Pagel	District 3	January 2005
Chair	Eugene Wicht	District 4	January 2005
Board Member	Glenn E. Johnson	District 5	January 2007
Attorney	Jeffrey Edblad		January 2007
Auditor	Terry F. Treichel		January 2007
Coroner	Donald Deye, M.D.		January 2007
County Recorder	Karen D. Anderson		January 2007
Registrar of Titles	Karen D. Anderson		January 2007
County Sheriff	Mike Ammend		January 2007
Treasurer	Lyle Myren		January 2007
Appointed			
Assessor	Curtis Becker		January 2005
Court Administrator	Sue LaBore		Indefinite
Highway Engineer	Richard Heilman		April 2006
Probation Officer	Joseph W. Hancuch		Indefinite
Surveyor	Don E. Hansen		February 2005
Veterans Service Officer	James Rostberg		February 2006
Human Services Director	Kevin S. VanHooser		Indefinite
County Coordinator	Jerry Tvedt		Indefinite

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Isanti County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Isanti County, Minnesota, as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Isanti County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Isanti County as of December 31, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005, on our consideration of Isanti County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: September 30, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

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

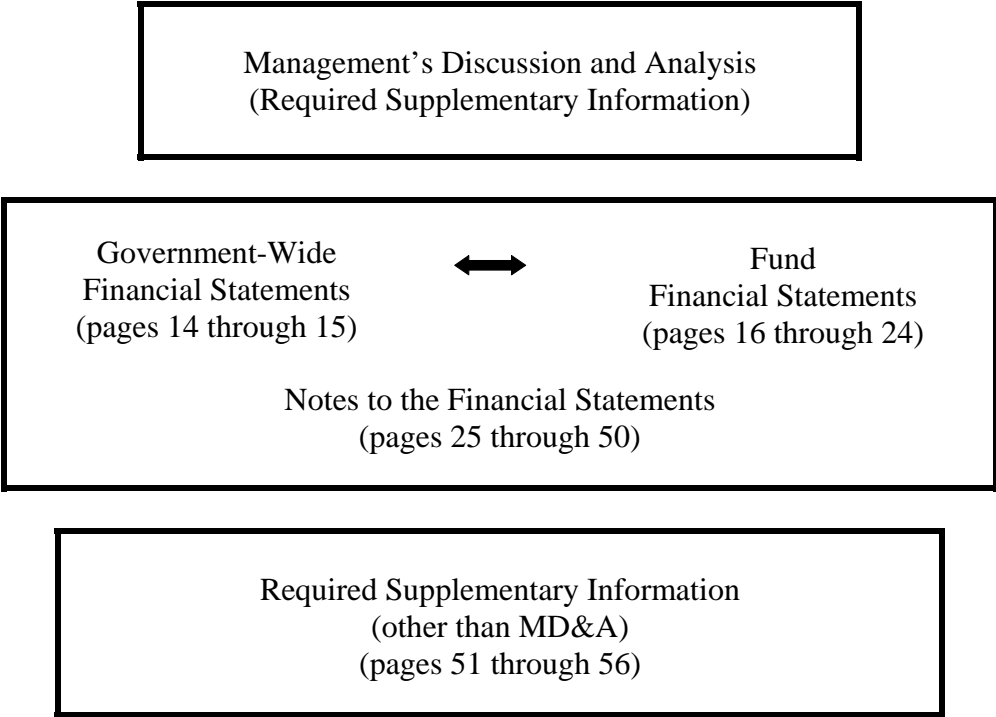
Isanti County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2004. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read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

FINANCIAL HIGHLIGHTS

- Governmental activities total net assets are \$53,524,973, of which \$40,824,860 is invested in capital assets, net of related debt; and \$1,652,284 of the total governmental activities net assets are restricted for specific uses.
- Isanti County's net assets increased by \$3,469,464 for the year ended December 31, 2004.
- The net cost of governmental activities was \$10,349,297 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$13,818,761.
- Governmental fund balances decreased by \$1,295,897. Most of the decrease was due to capital project expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



There are two government-wide financial statements. The Statement of Net Assets and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start with Exhibit 3. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

Government-Wide Financial Statements--The government-wide financial statements are designed to provide readers with a broad overview of Isanti County's finances, in a manner similar to a private-sector business.

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

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

In the Statement of Net Assets and the Statement of Activities, the County has only governmental activities. Most of the County's basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and federal grants finance most of these activities.

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

Fund Financial Statements--The analysis of the County's major funds begins with Exhibit 3. The fund financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. All of the funds of Isanti County can be divided into two categories: governmental funds and fiduciary funds.

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

Within the governmental funds, Isanti County maintains four fund types: General, Special Revenue, Debt Service, and Capital Projects. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the major funds. Major funds include: General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Debt

Service Fund, and Capital Projects Fund. Data from the other three special revenue funds and non-major funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds may be found on pages 57-58 of this report.

Isanti County adopts an annual budget for the General Fund, Road and Bridge Special Revenue Fund, and Human Services Special Revenue Fund. A budgetary comparison statement has been provided for these three funds to demonstrate compliance with their budgets. The budgetary comparison schedules may be found on pages 51-55 of this report.

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

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

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

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

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

Fiduciary Funds--The County is the trustee, or fiduciary, over assets that can be used only for the trust beneficiaries based on the trust arrangement. All of the County's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on Exhibit 7. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements--The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements may be found on pages 25-50 of this report.

Other Information--In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The combining statements referred to earlier in connection with non-major governmental funds, fiduciary funds, and component unit are presented on pages 57-61.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, the change in net asset amounts may serve as a useful indicator of a government's financial position. Isanti County's assets exceeded liabilities by \$53,524,973 at the close of 2004, which is an increase of \$3,469,464 over 2003. Looking at the net assets and net expenses of governmental activities, two different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities.

Table 1
Net Assets

	Governmental Activities	
	2004	2003
Current and other assets	\$ 16,896,943	\$ 18,158,395
Capital assets	49,427,837	43,935,764
Total Assets	<u>\$ 66,324,780</u>	<u>\$ 62,094,159</u>
Long-term debt outstanding	\$ 11,291,806	\$ 10,944,299
Other liabilities	1,508,001	1,094,351
Total Liabilities	<u>\$ 12,799,807</u>	<u>\$ 12,038,650</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 40,824,860	\$ 32,920,115
Restricted	1,652,284	6,509,349
Unrestricted	<u>11,047,829</u>	<u>10,626,045</u>
Total Net Assets	<u>\$ 53,524,973</u>	<u>\$ 50,055,509</u>

Net assets of the County governmental activities were \$53,524,973. Unrestricted net assets--the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements--were \$11,047,829 at the end of the year.

Table 2
Changes in Net Assets
(In Thousands)

	Governmental Activities	
	2004	2003
Revenues		
Program revenues		
Fees, fines, and charges	\$ 4,020	\$ 4,205
Operating grants and contributions	8,371	10,058
Capital grants and contributions	1,703	1,101
General revenues		
Property taxes	10,329	9,601
Other taxes	152	123
Grants, gifts, and miscellaneous	3,337	3,684
Total Revenues	<u>\$ 27,912</u>	<u>\$ 28,772</u>
Expenses		
General government	\$ 5,249	\$ 5,145
Public safety	5,126	4,830
Highways and streets	1,931	2,521
Sanitation	113	13
Human services	9,161	9,149
Health	1,242	1,162
Culture and recreation	427	378
Conservation of natural resources	234	228
Economic development	637	575
Interest	323	331
Total Expenses	<u>\$ 24,443</u>	<u>\$ 24,332</u>
Increase in Net Assets	<u>\$ 3,469</u>	<u>\$ 4,440</u>

Governmental Activities--Revenues for the County governmental activities were \$27,912,203, while total expenses were \$24,442,739. This reflects a \$3,469,464 increase in net assets for the year ended December 31, 2004.

The cost of all governmental activities this year was \$24,442,739. However, as shown in the Statement of Activities (Exhibit 2), the amount that our taxpayers ultimately financed for these activities through County taxes was only \$10,328,885 because some of the cost was paid by those who directly benefited from the programs (\$4,020,357) or by other governments and organizations that subsidized certain programs with grants and contributions (\$10,073,085).

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

Table 3
Governmental Activities
(in Thousands)

	Total Cost of Services		Net Cost of Services	
	2004	2003	2004	2003
Human services	\$ 9,161	\$ 9,149	\$ 3,630	\$ 1,581
General government	5,249	5,145	2,494	3,007
Public safety	5,126	4,830	4,137	3,432
Highways and streets	1,931	2,521	(1,122)	(381)
Health	1,242	1,162	17	114
All others	1,734	1,525	1,193	1,215
Totals	<u>\$ 24,443</u>	<u>\$ 24,332</u>	<u>\$ 10,349</u>	<u>\$ 8,968</u>

THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as presented in the balance sheet on Exhibit 3) reported a combined fund balance of \$13,056,643, which is below last year's total of \$14,352,540. The governmental funds' change in fund balance (a decrease of \$1,295,897 for 2004) represent a nine percent decrease in governmental fund balances. Most of the decrease is due to capital expenditures for the Jail and Oakview projects.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets--At the end of 2004, the County had \$49,427,837 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4 following.) This amount represents a net increase (including additions and deductions) of \$5,492,073, or 12.5 percent, over last year.

Table 4
Capital Assets at Year-End

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 607,018	\$ 440,499	\$ -	\$ 1,047,517
Construction in progress	729,345	4,293,318	80,018	4,942,645
Total capital assets not depreciated	<u>\$ 1,336,363</u>	<u>\$ 4,733,817</u>	<u>\$ 80,018</u>	<u>\$ 5,990,162</u>
Capital assets depreciated				
Buildings	\$ 10,090,359	\$ -	\$ -	\$ 10,090,359
Machinery and equipment	5,089,151	363,576	87,276	5,365,451
Infrastructure	42,477,597	2,050,678	-	44,528,275
Improvements other than buildings	235,479	-	-	235,479
Total capital assets depreciated	<u>\$ 57,892,586</u>	<u>\$ 2,414,254</u>	<u>\$ 87,276</u>	<u>\$ 60,219,564</u>
Less: accumulated depreciation for				
Buildings	\$ 3,044,205	\$ 248,474	\$ -	\$ 3,292,679
Machinery and equipment	3,252,191	409,780	60,769	3,601,202
Infrastructure	8,961,880	880,663	-	9,842,543
Improvements other than buildings	34,909	10,556	-	45,465
Total accumulated depreciation	<u>\$ 15,293,185</u>	<u>\$ 1,549,473</u>	<u>\$ 60,769</u>	<u>\$ 16,781,889</u>
Total capital assets depreciated, net	<u>\$ 42,599,401</u>	<u>\$ 864,781</u>	<u>\$ 26,507</u>	<u>\$ 43,437,675</u>
Total Capital Assets, Net	<u>\$ 43,935,764</u>	<u>\$ 5,598,598</u>	<u>\$ 106,525</u>	<u>\$ 49,427,837</u>

Major capital asset events during 2004 included the following:

- A variety of County road and bridge construction projects with the purchase of highway equipment; completed projects, and equipment purchases totaled \$2,205,291 in 2004.
- Purchased park land for \$423,499 and received donated park land valued at \$17,000.
- Jail construction in progress totaled \$3,601,038 during 2004 while the Highway Department has expended \$936,492 for projects in progress during 2004.
- Renovations in progress at the Oakview building totaled \$286,545 during 2004.

Long-Term Debt--At the end of 2004, Isanti County had total bonded debt outstanding of \$10,370,690. The County's bonded debt increased by \$294,385 primarily due to financing the balance to complete the jail facility.

Table 5
Outstanding Debt at Year-End

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General Obligation	\$ 8,710,000	\$ 1,400,000	\$ 775,000	\$ 9,335,000	\$ 315,000
Less: deferred amounts for issuance discounts	39,652	13,443	3,210	49,885	-
Net bonds payable	\$ 8,670,348	\$ 1,386,557	\$ 771,790	\$ 9,285,115	\$ 315,000
East Central Solid Waste	1,366,305	-	330,615	1,035,690	364,980
Compensated absences	907,646	63,355	-	971,001	495,211
 Total Long-Term Liabilities	 <u>\$ 10,944,299</u>	 <u>\$ 1,449,912</u>	 <u>\$ 1,102,405</u>	 <u>\$ 11,291,806</u>	 <u>\$ 1,175,191</u>

The County's general obligation bond rating was raised to Aa2 in 2004. This rating is assigned by national rating agencies. The state limits the amount of net debt that counties can issue to two percent of the estimated market value of all taxable property (\$2,945,087,700) in the County. The County's outstanding debt (\$10,370,690) is significantly below this state-imposed limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for the governmental activities.

- The State of Minnesota continues to project a large budget deficit. This was not resolved in the 2005 legislative session. It is possible that Isanti County will see additional reductions in state revenues. This factor is being considered in the 2006 budget process.
- Isanti County General Fund expenditures for 2005 are budgeted to increase 8.2 percent from 2004. The majority of the increase went to the Public Health and Public Safety Departments.
- Percentage wise, Isanti County is the 13th fastest growing county in the nation. There was a 6.1 percent increase in housing units in 2004.
- The estimated market value of all taxable property in the County increased by \$474,989,600 in 2004 to \$2,945,087,700, or 19.2 percent.
- Property tax levies have increased 5.6 percent for 2005; however, this is a decrease compared to the 7.9 percent increase from 2003 to 2004.

On December 15, 2004, the Isanti County Board of Commissioners approved the 2005 budget. The 2005 total net levy is \$12,295,435, which is an increase of \$649,880 compared to the 2004 total net levy of \$11,645,555.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Isanti County Coordinator, Jerry T. Tvedt, Isanti County Government Center, 555 - 18th Avenue S.W., Cambridge, Minnesota 55008. The telephone number is (763) 689-3859.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

EXHIBIT 1

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

	Primary Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 12,725,493	\$ 84,873
Petty cash and change funds	995	-
Departmental cash	85,849	-
Cash with escrow agent	502,359	-
Taxes receivable		
Prior - net	479,898	177
Special assessments receivable		
Prior - net	-	367
Accounts receivable - net	8,686	-
Accrued interest receivable	51,960	-
Due from other governments	2,560,416	-
Inventories	308,147	-
Advances to component unit	120,000	-
Deferred charges	53,140	-
Capital assets		
Non-depreciable	5,990,162	-
Depreciable - net of accumulated depreciation	43,437,675	66,655
Total Assets	\$ 66,324,780	\$ 152,072
<u>Liabilities</u>		
Accounts payable	\$ 567,508	\$ 1,960
Salaries payable	282,734	-
Contracts payable	303,749	-
Due to other governments	129,263	-
Accrued interest payable	137,285	-
Unearned revenue	87,462	-
Advance from primary government	-	120,000
Long-term liabilities		
Due within one year	1,175,191	-
Due in more than one year	10,116,615	-
Total Liabilities	\$ 12,799,807	\$ 121,960
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 40,824,860	\$ -
Restricted for		
Capital improvements	207,798	-
Debt service	1,425,766	-
Missing heirs	18,720	-
Unrestricted	11,047,829	30,112
Total Net Assets	\$ 53,524,973	\$ 30,112

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

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

EXHIBIT 2

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

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
		<u>Fees, Charges, Fines, and and Other</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Governmental Activities</u>	<u>Discretely Presented Component Unit</u>
<u>Functions/Programs</u>						
Primary Government						
Governmental activities						
General government	\$ 5,249,287	\$ 2,269,199	\$ 465,093	\$ 20,787	\$ (2,494,208)	
Public safety	5,125,504	426,281	562,711	-	(4,136,512)	
Highways and streets	1,931,377	106,982	1,281,279	1,664,736	1,121,620	
Sanitation	113,336	-	-	-	(113,336)	
Human services	9,160,593	766,912	4,763,455	-	(3,630,226)	
Health	1,242,222	300,878	924,471	-	(16,873)	
Culture and recreation	427,298	52,538	151,397	17,000	(206,363)	
Conservation of natural resources	233,669	1,095	217,112	-	(15,462)	
Economic development	636,553	96,472	5,044	-	(535,037)	
Debt service	322,900	-	-	-	(322,900)	
Total primary government	\$ 24,442,739	\$ 4,020,357	\$ 8,370,562	\$ 1,702,523	\$ (10,349,297)	
Component Unit						
Green Lake Improvement Project	\$ 15,203	\$ 466	\$ 28,931	\$ 5,376		\$ 19,570
General Revenues						
Property taxes				\$ 10,328,885	\$ 2,511	
Mortgage registry and deed tax				91,342	-	
Taxes - other				348	-	
Payments in lieu of tax				60,789	-	
Grants and contributions not restricted to specific programs				3,001,600	220	
Unrestricted investment earnings				329,323	-	
Miscellaneous				6,474	-	
Total general revenues				\$ 13,818,761	\$ 2,731	
Change in net assets				\$ 3,469,464	\$ 22,301	
Net Assets - January 1				50,055,509	7,811	
Net Assets - December 31				\$ 53,524,973	\$ 30,112	

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

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

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 5,657,470	\$ 1,273,722
Petty cash and change funds	995	-
Departmental cash	85,731	-
Cash with escrow agent	-	-
Taxes receivable		
Prior	262,343	51,383
Accounts receivable	8,686	-
Accrued interest receivable	51,250	-
Due from other funds	45,303	-
Due from other governments	276,145	1,587,472
Inventories	-	308,147
Advances to component unit	120,000	-
	\$ 6,507,923	\$ 3,220,724
Total Assets	\$ 6,507,923	\$ 3,220,724

EXHIBIT 3

Human Services	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 3,821,110	\$ 916,883	\$ 1,029,013	\$ 27,295	\$ 12,725,493
-	-	-	-	995
-	-	-	118	85,849
-	502,359	-	-	502,359
138,198	27,974	-	-	479,898
-	-	-	-	8,686
-	710	-	-	51,960
-	5,814	-	-	51,117
696,488	-	311	-	2,560,416
-	-	-	-	308,147
-	-	-	-	120,000
\$ 4,655,796	\$ 1,453,740	\$ 1,029,324	\$ 27,413	\$ 16,894,920

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

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

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 208,068	\$ 49,911
Salaries payable	197,350	23,668
Contracts payable	-	228,461
Due to other funds	-	-
Due to other governments	78,243	4,753
Deferred revenue - unavailable	332,424	1,638,187
Deferred revenue - unearned	87,462	-
	\$ 903,547	\$ 1,944,980
Fund Balances		
Reserved for		
Encumbrances	\$ -	\$ 216,619
Inventories	-	308,147
Advances to component unit	120,000	-
Petty cash	995	-
Missing heirs	18,720	-
Law library	64,429	-
Recorder's equipment	24,180	-
DARE	20,596	-
Sheriff's forfeited property	16,371	-
Attorney's forfeited property	17,223	-
Auditor's holding account	11,915	-
Parks and recreation	125,630	-
Lake Francis study	49,174	-
Cash with escrow agent	-	-
Unreserved		
Designated for debt service	-	-
Designated for capital improvements	-	-
Designated for pending litigation	29,832	-
Designated for oak wilt	13,772	-
Designated for township parks	167,619	-
Designated for public education sheriff	13,820	-
Undesignated	4,910,100	750,978
Unreserved, reported in nonmajor		
Special revenue funds	-	-
	\$ 5,604,376	\$ 1,275,744
Total Liabilities and Fund Balances	\$ 6,507,923	\$ 3,220,724

EXHIBIT 3
(Continued)

Human Services	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 305,529	\$ -	\$ 4,000	\$ -	\$ 567,508
61,716	-	-	-	282,734
-	-	75,288	-	303,749
45,303	-	5,814	-	51,117
30,355	-	-	15,912	129,263
417,859	27,974	-	-	2,416,444
-	-	-	-	87,462
\$ 860,762	\$ 27,974	\$ 85,102	\$ 15,912	\$ 3,838,277
\$ -	\$ -	\$ -	\$ -	\$ 216,619
-	-	-	-	308,147
-	-	-	-	120,000
-	-	-	-	995
-	-	-	-	18,720
-	-	-	-	64,429
-	-	-	-	24,180
-	-	-	-	20,596
-	-	-	-	16,371
-	-	-	-	17,223
-	-	-	-	11,915
-	-	-	-	125,630
-	-	-	-	49,174
-	502,359	-	-	502,359
-	923,407	-	-	923,407
-	-	944,222	-	944,222
-	-	-	-	29,832
-	-	-	-	13,772
-	-	-	-	167,619
-	-	-	-	13,820
3,795,034	-	-	-	9,456,112
-	-	-	11,501	11,501
\$ 3,795,034	\$ 1,425,766	\$ 944,222	\$ 11,501	\$ 13,056,643
\$ 4,655,796	\$ 1,453,740	\$ 1,029,324	\$ 27,413	\$ 16,894,920

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)	\$	13,056,643
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.		49,427,837
Assets not available to pay for current period expenditures are deferred in governmental funds.		2,416,444
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (9,335,000)	
Unamortized discount on bonds	49,885	
East Central Solid Waste liability	(1,035,690)	
Compensated absences	(971,001)	
Accrued interest payable	(137,285)	
Deferred debt issuance charges	53,140	
	(11,375,951)	(11,375,951)
Net assets of governmental activities (Exhibit 1)	\$	<u>53,524,973</u>

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

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

	General	Road and Bridge
Revenues		
Taxes	\$ 5,919,209	\$ 999,276
Licenses and permits	669,271	-
Intergovernmental	4,379,375	2,883,681
Charges for services	1,283,811	102,381
Fines and forfeits	253,499	-
Gifts and contributions	147,535	-
Interest on investments	234,022	-
Miscellaneous	933,897	4,601
	\$ 13,820,619	\$ 3,989,939
Expenditures		
Current		
General government	\$ 5,026,770	\$ -
Public safety	5,039,950	-
Highways and streets	-	4,039,828
Sanitation	103,496	-
Human services	-	-
Health	1,242,222	-
Culture and recreation	146,570	-
Conservation of natural resources	232,290	-
Economic development	646,513	-
Intergovernmental	503,537	-
Capital outlay	440,499	-
Debt service		
Principal retirement	-	-
Interest	-	-
Administrative (fiscal) charges	-	-
Bond issuance costs	-	-
	\$ 13,381,847	\$ 4,039,828
Excess of Revenues Over (Under) Expenditures	\$ 438,772	\$ (49,889)
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ -
Transfers out	(679,572)	-
Proceeds from sale of assets	3,656	-
Bonds and notes issued	-	-
Premium on bonds/notes issued	-	-
Discount on bond issuance	-	-
	\$ (675,916)	\$ -
Net Change in Fund Balance	\$ (237,144)	\$ (49,889)
Fund Balance - January 1	5,841,520	1,277,187
Increase (decrease) in reserved for inventories	-	48,446
Fund Balance - December 31	\$ 5,604,376	\$ 1,275,744

EXHIBIT 5

<u>Human Services</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 2,942,409	\$ 559,751	\$ -	\$ 348	\$ 10,420,993
-	-	-	-	669,271
5,969,972	161,820	-	-	13,394,848
95,969	-	-	-	1,482,161
-	-	-	15,566	269,065
-	-	-	-	147,535
-	95,301	-	-	329,323
658,537	-	5,852	60	1,602,947
\$ 9,666,887	\$ 816,872	\$ 5,852	\$ 15,974	\$ 28,316,143
\$ -	\$ -	\$ -	\$ 14,036	\$ 5,040,806
-	-	-	5,943	5,045,893
-	-	-	-	4,039,828
-	-	-	-	103,496
9,132,197	-	-	-	9,132,197
-	-	-	-	1,242,222
-	-	-	-	146,570
-	-	-	-	232,290
-	-	-	-	646,513
-	-	-	-	503,537
-	-	3,259,050	-	3,699,549
-	775,000	-	-	775,000
-	350,594	63,817	-	414,411
-	3,070	-	-	3,070
-	-	25,874	-	25,874
\$ 9,132,197	\$ 1,128,664	\$ 3,348,741	\$ 19,979	\$ 31,051,256
\$ 534,690	\$ (311,792)	\$ (3,342,889)	\$ (4,005)	\$ (2,735,113)
\$ -	\$ 129,572	\$ 550,000	\$ -	\$ 679,572
-	-	-	-	(679,572)
-	-	-	-	3,656
-	-	1,400,000	-	1,400,000
-	557	-	-	557
-	-	(13,443)	-	(13,443)
\$ -	\$ 130,129	\$ 1,936,557	\$ -	\$ 1,390,770
\$ 534,690	\$ (181,663)	\$ (1,406,332)	\$ (4,005)	\$ (1,344,343)
3,260,344	1,607,429	2,350,554	15,506	14,352,540
-	-	-	-	48,446
\$ 3,795,034	\$ 1,425,766	\$ 944,222	\$ 11,501	\$ 13,056,643

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) \$ (1,344,343)

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

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

Deferred revenue - December 31	\$ 2,416,444	
Deferred revenue - January 1	(2,830,224)	(413,780)

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

Expenditures for general capital assets and infrastructure	\$ 7,068,053	
Net book value of assets disposed of	(26,507)	
Current year depreciation	(1,549,473)	5,492,073

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.
Net proceeds for debt issuance (1,361,239)

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	\$ 775,000	
East Central Solid Waste	330,615	1,105,615

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	\$ 11,708	
Change in compensated absences	(63,355)	
Amortization of discounts and deferred issuance charges	(5,661)	
Change in inventories	48,446	(8,862)

Change in net assets of governmental activities (Exhibit 2) \$ 3,469,464

FIDUCIARY FUNDS

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

EXHIBIT 7

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

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 1,200,132</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 1,200,132</u>

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

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

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

Isanti County was established February 13, 1857, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Isanti County (primary government) and its component unit for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Discretely Presented Component Unit

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

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

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government and its component 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 are activities normally supported by taxes and intergovernmental revenues.

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

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

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

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

Additionally, the County reports the following fund type:

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

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2004, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2004 were \$234,022.

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

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

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

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. 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).

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

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

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

3. Inventories and Prepaid Items

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

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

4. Restricted Assets

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

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Capital Assets

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

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	25 - 40
Building improvements	7 - 30
Public domain infrastructure	20 - 50
Furniture, equipment, and vehicles	5 - 20

6. Compensated Absences

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

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Deferred Revenue

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

	Unavailable	Unearned
Delinquent property taxes	\$ 479,898	\$ -
Grant receivables that do not provide current financial resources	1,936,546	-
Grant drawdowns prior to meeting all eligibility requirements	-	87,462
Total Deferred/Unearned Revenue for All Governmental Funds	\$ 2,416,444	\$ 87,462

8. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as 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.

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Fund Equity

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

10. Use of Estimates

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

E. Revenues

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

Imposed Nonexchange Transactions

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

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues

Imposed Nonexchange Transactions (Continued)

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

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

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

Exchange Transactions

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

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Individual Fund Deficits

Two of the four drainage systems in the Ditch Special Revenue Fund have incurred expenditures in excess of revenues and available resources. The following summary shows fund balances as of December 31, 2004:

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$4,042,096. The bank balance deposit amount was \$5,307,428. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

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

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 300,000
Collateralized with securities held by the pledging financial institution's agent in the County's name	<u>5,007,428</u>
Total covered deposits	\$ 5,307,428
Uncollateralized	<u>-</u>
Total	<u>\$ 5,307,428</u>

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

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

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

	Category			Fair Value
	1	2	3	
U.S. government securities	\$ 6,280,922	\$ -	\$ -	\$ 6,280,922
Jumbo CDs	1,453,000	-	-	1,453,000
Cash with escrow agent	-	-	502,359	502,358
	\$ 7,733,922	\$ -	\$ 502,359	\$ 8,236,280
Add				
Checking accounts				329,544
Money market savings				3,152,552
Mutual funds				2,232,164
Certificates of deposit				560,000
Departmental cash				85,849
Credit card deposits				2,317
Petty cash and change funds				995
Total Cash, Deposits, and Investments				\$ 14,599,701

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

As shown on the financial statements at December 31, 2004:

Primary Government		
Cash and pooled investments	\$	12,725,493
Departmental cash		85,849
Petty cash and change funds		995
Cash with escrow agent		502,359
Green Lake Component Unit		84,873
Agency Funds		1,200,132
Total	\$	14,599,701

2. Capital Assets

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

Primary Government

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 607,018	\$ 440,499	\$ -	\$ 1,047,517
Construction in progress	729,345	4,293,318	80,018	4,942,645
Total capital assets not depreciated	\$ 1,336,363	\$ 4,733,817	\$ 80,018	\$ 5,990,162
Capital assets depreciated				
Buildings	\$ 10,090,359	\$ -	\$ -	\$ 10,090,359
Improvements other than buildings	235,479	-	-	235,479
Machinery, furniture, and equipment	5,089,151	363,576	87,276	5,365,451
Infrastructure	42,477,597	2,050,678	-	44,528,275
Total capital assets depreciated	\$ 57,892,586	\$ 2,414,254	\$ 87,276	\$ 60,219,564

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Capital Assets

Primary Government (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 3,044,205	\$ 248,474	\$ -	\$ 3,292,679
Improvements other than buildings	34,909	10,556	-	45,465
Machinery, furniture, and equipment	3,252,191	409,780	60,769	3,601,202
Infrastructure	8,961,880	880,663	-	9,842,543
 Total accumulated depreciation	 \$ 15,293,185	 \$ 1,549,473	 \$ 60,769	 \$ 16,781,889
 Total capital assets depreciated, net	 \$ 42,599,401	 \$ 864,781	 \$ 26,507	 \$ 43,437,675
 Primary Government Capital Assets, Net	 \$ 43,935,764	 \$ 5,598,598	 \$ 106,525	 \$ 49,427,837

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

General government	\$ 261,054
Public safety	212,022
Highways and streets (including infrastructure)	1,033,072
Conservation of natural resources	1,379
Culture and recreation	3,154
Economic development	38,792
 Total	 \$ 1,549,473

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Capital Assets (Continued)

Green Lake Project Component Unit

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated Improvements other than buildings	\$ 76,909	\$ -	\$ -	\$ 76,909
Less: accumulated depreciation	<u>6,409</u>	<u>3,845</u>	<u>-</u>	<u>10,254</u>
Component Unit Capital Assets, Net	<u>\$ 70,500</u>	<u>\$ 3,845</u>	<u>\$ -</u>	<u>\$ 66,655</u>

B. Interfund Receivables, Payables, and Transfers

1. Interfund Balances

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

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Human Services	\$ 45,303
Debt Service	Capital Projects	<u>5,814</u>
Total Due To/From Other Funds		<u>\$ 51,117</u>

Advances From/To Component Unit

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

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

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

2. Interfund Transfers

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

Transfers to Debt Service Fund from General Fund	\$ 129,572	Provide funds for debt service
Transfer to Capital Project Fund from General Fund	<u>550,000</u>	Provide funds for capital project
Total transfers between funds	<u>\$ 679,572</u>	

C. Liabilities

1. Construction Commitments

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

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Jail construction	\$ 3,425	\$ 145
Oakview	581	1,419
Roads and bridges	937	217

2. Other Postemployment Benefits

Retirees

For employees hired before January 1, 1992, the County provides a postemployment benefit that covers the cost of single medical insurance coverage for qualified retirees. Qualified retirees include employees 65 years of age or older at retirement, or 62 years of age and with ten years of County service or with 20 years of service, and must meet Public Employees Retirement Association of Minnesota (PERA) retirement requirements. Retirees who receive medical

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Other Postemployment Benefits

Retirees (Continued)

benefits from subsequent employment are no longer eligible for this benefit. The benefit terminates upon their death. This benefit is authorized by Minn. Stat. § 471.61, subd. 2a.

As of year-end, the County has 41 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2004, the County expended \$122,292 for these benefits.

3. Long-Term Debt

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
General obligation bonds					
1998 G.O. Public Facility Refunding Bonds	2014	\$225,000 - \$645,000	4.30 - 4.85	\$ 5,965,000	\$ 5,520,000
2003A G.O. Jail Bonds	2021	\$50,000 - \$355,000	1.125 - 3.85	2,770,000	2,415,000
2004A G.O. Jail Bonds	2022	\$25,000 - \$320,000	3.75 - 4.40	1,400,000	1,400,000
Total general obligation bonds				<u>\$ 10,135,000</u>	<u>\$ 9,335,000</u>
Less: unamortized discount					<u>(49,885)</u>
Total General Obligation Bonds, Net					<u>\$ 9,285,115</u>

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

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

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 315,000	\$ 359,338
2006	550,000	364,696
2007	590,000	341,463
2008	615,000	316,656
2009	645,000	290,305
2010 - 2014	3,675,000	991,341
2015 - 2019	1,875,000	394,428
2020 - 2022	1,070,000	65,273
Total	<u>\$ 9,335,000</u>	<u>\$ 3,123,500</u>

5. Changes in Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 8,710,000	\$ 1,400,000	\$ (775,000)	\$ 9,335,000	\$ 315,000
East Central Solid Waste	1,366,305	-	(330,615)	1,035,690	364,980
Compensated absences	907,646	63,355	-	971,001	495,211
Governmental Activity Long-Term Liabilities	<u>\$ 10,983,951</u>	<u>\$ 1,463,355</u>	<u>\$ (1,105,615)</u>	<u>\$ 11,341,691</u>	<u>\$ 1,175,191</u>

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

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

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

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

Funding Policy

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

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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

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

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

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2004	\$ 413,469	\$ 86,612	\$ 91,883
2003	396,406	79,183	85,525
2002	394,024	84,922	80,436

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.

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

4. Employee Retirement Systems and 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, 2004, 2003, and 2002, were \$1,262, \$1,213, and \$956, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

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

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

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

B. Contingent Liabilities

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

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

C. Joint Ventures

East Central Solid Waste Commission

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

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

East Central Solid Waste Commission (Continued)

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

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

At December 31, 2004, the Commission had \$4,370,000 in long-term bonds outstanding. The bonds will be retired from solid waste fee revenues. Should these revenues be insufficient to retire the debt, the participating counties are currently responsible in the following proportion:

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

Isanti County's proportionate share of the bonds payable is \$1,035,690 for which the County is contingently liable.

During 1993, the participating counties were notified that the Commission was unable to meet its cash needs for debt service. The counties were assessed for their proportionate share for 1993 and the following years. Isanti County's contribution was \$225,963 for 2004. Complete financial statements of the East Central Solid Waste Commission can be obtained at 1756 - 180th Avenue, Mora, Minnesota 55051.

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

East Central Regional Library

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

Isanti County's contribution for 2004 was \$277,574. Complete financial statements of the East Central Regional Library can be obtained at 244 South Birch, Cambridge, Minnesota 55008.

D. Jointly-Governed Organization

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

Isanti County Integrated Collaborative

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

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

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

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organization

Isanti County Integrated Collaborative (Continued)

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

REQUIRED SUPPLEMENTARY INFORMATION

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 5,949,757	\$ 5,949,757	\$ 5,919,209	\$ (30,548)
Licenses and permits	493,320	493,320	669,271	175,951
Intergovernmental	3,325,650	3,325,650	4,379,375	1,053,725
Charges for services	1,386,771	1,386,771	1,283,811	(102,960)
Fines and forfeits	260,500	260,500	253,499	(7,001)
Gifts and contributions	34,000	34,000	147,535	113,535
Investment earnings	370,010	370,010	234,022	(135,988)
Miscellaneous	499,122	499,122	933,897	434,775
Total Revenues	\$ 12,319,130	\$ 12,319,130	\$ 13,820,619	\$ 1,501,489
Expenditures				
Current				
General government				
Commissioners	\$ 185,952	\$ 185,952	\$ 184,052	\$ 1,900
Courts	675,824	675,824	584,944	90,880
Law library	12,425	12,425	12,161	264
County administration	688,530	688,530	669,385	19,145
County auditor	396,052	396,052	400,407	(4,355)
County treasurer	191,904	191,904	180,393	11,511
County assessor	338,717	338,717	348,610	(9,893)
Elections	24,400	24,400	20,431	3,969
Accounting and auditing	40,000	40,000	64,057	(24,057)
Data processing	263,716	263,716	240,807	22,909
Central services	11,000	11,000	799	10,201
Personnel	-	-	836	(836)
Human rights commission	1,970	1,970	1,780	190
Attorney	824,654	824,654	813,158	11,496
Recorder	218,872	218,872	206,156	12,716
Surveyor	29,500	29,500	30,995	(1,495)
Planning and zoning	486,239	486,239	455,276	30,963
Buildings and plant	822,042	822,042	690,495	131,547
Veterans service officer	53,208	53,208	44,599	8,609
Appropriations	77,406	77,406	77,406	-
Other	-	-	23	(23)
Total general government	\$ 5,342,411	\$ 5,342,411	\$ 5,026,770	\$ 315,641
Public safety				
Sheriff	\$ 3,803,021	\$ 3,803,021	\$ 4,076,304	\$ (273,283)
Safety and rescue	14,000	14,000	9,265	4,735
Emergency management	48,628	48,628	92,602	(43,974)
Coroner	52,600	52,600	63,092	(10,492)
E-911 System	48,000	48,000	282,301	(234,301)
Probation and parole	521,819	521,819	516,386	5,433
Total public safety	\$ 4,488,068	\$ 4,488,068	\$ 5,039,950	\$ (551,882)

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

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	\$ -	\$ -	\$ 103,496	\$ (103,496)
Health				
Nursing service	\$ 970,252	\$ 970,252	\$ 1,242,222	\$ (271,970)
Culture and recreation				
Historical society	\$ 19,700	\$ 19,700	\$ 19,402	\$ 298
Parks	109,786	109,786	85,532	24,254
Celebrations	985	985	475	510
Bike trails	-	-	41,161	(41,161)
Total culture and recreation	\$ 130,471	\$ 130,471	\$ 146,570	\$ (16,099)
Conservation of natural resources				
Extension	\$ 118,893	\$ 118,893	\$ 113,816	\$ 5,077
Soil and water conservation	41,094	41,094	57,447	(16,353)
Agricultural inspections	10,221	10,221	8,322	1,899
Agricultural society/County fair	29,550	29,550	29,550	-
Predator control	8,000	8,000	6,412	1,588
Oak wilt program	6,500	6,500	16,743	(10,243)
Other	-	-	-	-
Total conservation of natural resources	\$ 214,258	\$ 214,258	\$ 232,290	\$ (18,032)
Economic development				
Transit	\$ 599,118	\$ 599,118	\$ 646,513	\$ (47,395)
Intergovernmental				
Sanitation	\$ 270,000	\$ 270,000	\$ 225,963	\$ 44,037
Library	278,574	278,574	277,574	1,000
Total intergovernmental	\$ 548,574	\$ 548,574	\$ 503,537	\$ 45,037
Capital Outlay				
Culture and recreation	\$ -	\$ -	\$ 440,499	\$ (440,499)
Total Expenditures	\$ 12,293,152	\$ 12,293,152	\$ 13,381,847	\$ (1,088,695)
Excess of Revenues Over (Under) Expenditures	\$ 25,978	\$ 25,978	\$ 438,772	\$ 412,794

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 1
(Continued)

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Proceeds from sale of assets	\$ -	\$ -	\$ 3,656	\$ 3,656
Transfers out	-	-	(679,572)	(679,572)
Total other financing sources	\$ -	\$ -	\$ (675,916)	\$ (675,916)
Net Change in Fund Balance	\$ 25,978	\$ 25,978	\$ (237,144)	\$ (263,122)
Fund Balance - January 1	5,841,520	5,841,520	5,841,520	-
Fund Balance - December 31	<u>\$ 5,867,498</u>	<u>\$ 5,867,498</u>	<u>\$ 5,604,376</u>	<u>\$ (263,122)</u>

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 993,694	\$ 993,694	\$ 999,276	\$ 5,582
Intergovernmental	2,976,382	2,976,382	2,883,681	(92,701)
Charges for services	60,000	60,000	102,381	42,381
Miscellaneous	4,000	4,000	4,601	601
Total Revenues	\$ 4,034,076	\$ 4,034,076	\$ 3,989,939	\$ (44,137)
Expenditures				
Current				
Highways and streets				
Administration	\$ 316,152	\$ 316,152	\$ 312,067	\$ 4,085
Maintenance	986,179	986,179	962,165	24,014
Construction	2,448,456	2,448,456	2,254,355	194,101
Equipment maintenance and shop	474,644	474,644	511,241	(36,597)
Total Expenditures	\$ 4,225,431	\$ 4,225,431	\$ 4,039,828	\$ 185,603
Excess of Revenues Over (Under) Expenditures	\$ (191,355)	\$ (191,355)	\$ (49,889)	\$ 141,466
Fund Balance - January 1	1,277,187	1,277,187	1,277,187	-
Increase (decrease) in reserved for inventories	-	-	48,446	48,446
Fund Balance - December 31	\$ 1,085,832	\$ 1,085,832	\$ 1,275,744	\$ 189,912

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,930,669	\$ 2,930,669	\$ 2,942,409	\$ 11,740
Intergovernmental	6,456,237	6,456,237	5,969,972	(486,265)
Charges for services	79,351	79,351	95,969	16,618
Miscellaneous	450,504	450,504	658,537	208,033
Total Revenues	\$ 9,916,761	\$ 9,916,761	\$ 9,666,887	\$ (249,874)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,967,259	\$ 1,967,259	\$ 1,994,044	\$ (26,785)
Social services	8,049,502	8,049,502	7,138,153	911,349
Total Expenditures	\$ 10,016,761	\$ 10,016,761	\$ 9,132,197	\$ 884,564
Excess of Revenues Over (Under) Expenditures	\$ (100,000)	\$ (100,000)	\$ 534,690	\$ 634,690
Fund Balance - January 1	3,260,344	3,260,344	3,260,344	-
Fund Balance - December 31	\$ 3,160,344	\$ 3,160,344	\$ 3,795,034	\$ 634,690

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

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

Stewardship, Compliance, and Accountability

Budgetary Information

General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund and certain special revenue funds. For 2004, however, budgets were not adopted for the Sheriff's Contingency, Forfeited Tax Sale, and Ditch Special Revenue Funds. The budgets may be amended or modified at any time by the County Board.

Encumbrances

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

Budget Basis of Accounting

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

Expenditures in Excess of Appropriations

In the General Fund, for 2004, expenditures exceeded the budgeted amounts by \$1,088,695. The largest overages occurred in Public Safety (\$551,882), Sanitation (\$103,496), Health (\$271,970), and Capital Outlay (\$440,499) expenditures.

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SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Statement 1

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

	Sheriff's Contingency	Forfeited Tax Sale	Ditch	Total (Exhibit 3)
<u>Assets</u>				
Cash and pooled investments	\$ 1,140	\$ 15,912	\$ 10,243	\$ 27,295
Departmental cash	118	-	-	118
Total Assets	\$ 1,258	\$ 15,912	\$ 10,243	\$ 27,413
<u>Liabilities and Fund Balances</u>				
Liabilities				
Due to other governments	\$ -	\$ 15,912	\$ -	\$ 15,912
Fund Balances				
Unreserved				
Undesignated	1,258	-	10,243	11,501
Total Liabilities and Fund Balances	\$ 1,258	\$ 15,912	\$ 10,243	\$ 27,413

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Statement 2

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

	Sheriff's Contingency	Forfeited Tax Sale	Ditch	Total (Exhibit 5)
Revenues				
Taxes	\$ -	\$ 348	\$ -	\$ 348
Fines and forfeits	1,938	13,628	-	15,566
Miscellaneous	-	60	-	60
Total Revenues	\$ 1,938	\$ 14,036	\$ -	\$ 15,974
Expenditures				
Current				
General government	\$ -	\$ 14,036	\$ -	\$ 14,036
Public safety	5,943	-	-	5,943
Total Expenditures	\$ 5,943	\$ 14,036	\$ -	\$ 19,979
Excess of Revenues Over (Under) Expenditures	\$ (4,005)	\$ -	\$ -	\$ (4,005)
Fund Balance - January 1	5,263	-	10,243	15,506
Fund Balance - December 31	\$ 1,258	\$ -	\$ 10,243	\$ 11,501

FIDUCIARY FUNDS

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Statement 3

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 513,665</u>	<u>\$ 128,482</u>	<u>\$ 73,864</u>	<u>\$ 568,283</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 513,665</u>	<u>\$ 128,482</u>	<u>\$ 73,864</u>	<u>\$ 568,283</u>
 <u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 211,365</u>	<u>\$ 49,734</u>	<u>\$ 186,744</u>	<u>\$ 74,355</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 211,365</u>	<u>\$ 49,734</u>	<u>\$ 186,744</u>	<u>\$ 74,355</u>
 <u>COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 619,085</u>	<u>\$ 343,754</u>	<u>\$ 405,345</u>	<u>\$ 557,494</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 619,085</u>	<u>\$ 343,754</u>	<u>\$ 405,345</u>	<u>\$ 557,494</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 1,344,115</u>	<u>\$ 521,970</u>	<u>\$ 665,953</u>	<u>\$ 1,200,132</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 1,344,115</u>	<u>\$ 521,970</u>	<u>\$ 665,953</u>	<u>\$ 1,200,132</u>

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COMPONENT UNIT - GREEN LAKE PROJECT

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Statement 4

**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
COMPONENT UNIT
GREEN LAKE PROJECT
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General Fund	Reconciliation	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 84,873	\$ -	\$ 84,873
Taxes receivable			
Prior	177	-	177
Special assessments			
Prior	367	-	367
Capital assets			
Depreciable - net	-	66,655	66,655
Total Assets	\$ 85,417	\$ 66,655	\$ 152,072
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 1,960	\$ -	\$ 1,960
Deferred revenue	544	(544)	-
Advance from primary government	-	120,000	120,000
Total Liabilities	\$ 2,504	\$ 119,456	\$ 121,960
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved			
Undesignated	82,913	\$ (82,913)	
Total Liabilities and Fund Balance	\$ 85,417		
Net Assets			
Unrestricted		\$ 30,112	\$ 30,112
<u>Reconciliation of the General Fund Balance to Net Assets</u>			
General Fund Balance			\$ 82,913
Capital assets are reported on the Statement of Net Assets but not in the General Fund Balance Sheet.			66,655
Assets not available to pay current expenditures are deferred in the fund.			544
Long-term liabilities, including advances payable, are not reported in the fund.			(120,000)
Net Assets			\$ 30,112

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Statement 5

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
COMPONENT UNIT
GREEN LAKE PROJECT
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General Fund	Reconciliation	Statement of Activities
Revenues			
Taxes	\$ 2,476	\$ 35	\$ 2,511
Special assessments	5,176	200	5,376
Intergovernmental	29,051	(120)	28,931
Gifts and contributions	100	120	220
Miscellaneous	466	-	466
Total Revenues	\$ 37,269	\$ 235	\$ 37,504
Expenditures/Expenses			
Current			
Conservation of natural resources	11,358	3,845	15,203
Change in Fund Balance/Net Assets	\$ 25,911	\$ (3,610)	\$ 22,301
Fund Balance/Net Assets - January 1	57,002	(49,191)	7,811
Fund Balance/Net Assets - December 31	\$ 82,913	\$ (52,801)	\$ 30,112

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

Net Change in Fund Balance	\$ 25,911
In the fund, receivables not available for expenditure are deferred. In the statement of activities, these revenues are recognized when earned. The adjustment is the change in deferred revenues.	
Deferred revenue - December 31	544
Deferred revenue - January 1	(309)
The fund reports capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over the assets' estimated useful lives and reported as depreciation expense.	
	(3,845)
Change in Net Assets	\$ 22,301

OTHER SCHEDULES

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 4

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

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
Pooled Deposits and Investments			
Checking Accounts			
People's State Bank	0.210%	-	\$ 137,136
People's State Bank	-	-	148,745
Cambridge State Bank	0.400%	-	<u>43,663</u>
Total Checking Accounts			\$ 329,544
Certificates of Deposit			
People's Bank of Commerce	1.860%	March 17, 2005	\$ 300,000
People's Bank of Commerce	1.820%	June 29, 2005	10,000
Rural American Bank - Braham	1.700%	June 22, 2005	<u>250,000</u>
Total Certificates of Deposit			\$ 560,000
Credit Card Deposit			
Credit Cards			<u>\$ 2,317</u>
Negotiable Certificates of Deposit			
Camden National Bank - Camden, ME	5.050%	February 10, 2005	\$ 96,000
Capital Crossing Bank - Boston, MA	5.000%	September 28, 2006	96,000
First National Bank of Omaha	5.000%	September 27, 2006	100,000
Huntington National Bank - Columbus, OH	4.000%	December 02, 2014	96,000
Waypoint Bank - Harrisburg, PA	3.000%	July 8, 2013	96,000
M&T Bank - Buffalo, NY	3.250%	September 26, 2011	99,000
Bank FSB - Las Vegas, NV	4.125%	January 8, 2013	96,000
Horizon Bank - CO	3.150%	June 22, 2005	97,000
North Atlanta National Bank - GA	3.330%	August 18, 2006	97,000
Bank of Commerce - NV	3.300%	August 18, 2006	97,000
Frontenac Bank - MO	3.250%	August 18, 2006	97,000
Yardville National Bank - NJ	3.331%	August 18, 2006	97,000
MidAmerica National Bank - IL	3.280%	August 18, 2006	97,000
Georgia State Bank - GA	3.250%	March 29, 2006	96,000
Bank of Jamestown - KY	4.000%	November 17, 2007	<u>96,000</u>
Total Negotiable Certificates of Deposit			\$ 1,453,000
Money Market Savings			
People's Bank of Commerce	1.250%	-	\$ 1,663,283
Cambridge State Bank	1.560%	-	<u>1,489,269</u>
Total Money Market Savings			\$ 3,152,552
Cash Management Fund			
MAGIC Fund	1.800%	-	<u>\$ 2,232,164</u>

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 4
(Continued)

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

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
Pooled Deposits and Investments (Continued)			
U.S. Government Securities			
Federal Home Loan Bank	2.750%	December 29, 2006	\$ 199,954
Federal Home Loan Bank	2.250%	July 19, 2007	124,374
Federal Home Loan Bank	2.000%	February 9, 2007	248,325
Federal Home Loan Bank	4.000%	May 25, 2018	197,142
Federal Home Loan Bank	2.000%	August 10, 2007	199,194
Federal Home Loan Bank	2.000%	July 29, 2008	498,085
Federal Home Loan Bank	3.250%	August 13, 2013	297,552
Federal Home Loan Bank	2.500%	January 15, 2008	199,554
Federal Home Loan Bank	3.000%	June 19, 2013	245,135
Federal Home Loan Bank	3.000%	June 26, 2013	192,228
Federal Home Loan Bank	3.000%	July 17, 2013	222,525
Federal Home Loan Bank	4.000%	May 1, 2013	198,818
Federal Home Loan Bank	3.000%	June 26, 2013	484,735
Federal Home Loan Bank	3.000%	December 16, 2008	149,624
Federal Home Loan Bank	2.000%	March 20, 2008	149,288
Federal Home Loan Bank	2.000%	October 19, 2007	148,999
Federal Home Loan Bank	2.500%	November 9, 2007	322,842
Federal Home Loan Bank	2.750%	December 28, 2006	249,807
Federal Home Loan Bank	6.450%	June 8, 2005	457,596
Federal Home Loan Bank	2.250%	March 30, 2009	497,345
Fannie Mae	2.307%	February 7, 2005	997,800
Total U.S. Government Securities			\$ 6,280,922
Total Pooled Deposits and Investments			\$ 14,010,499

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 5

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

	2003		2004		2005	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Tax Capacity						
Real property	\$ 17,554,138		\$ 20,558,449		\$ 24,183,946	
Personal property	304,340		331,804		369,334	
Less: tax increment	(217,985)		(296,698)		(355,281)	
Net Tax Capacity	\$ 17,640,493		\$ 20,593,555		\$ 24,197,999	
Taxes Levied for County Purposes						
General	\$ 7,348,486	34.356	\$ 7,348,252	31.654	\$ 7,916,794	29.027
Road and Bridge	1,301,260	6.084	1,281,076	5.518	1,377,872	5.052
Human Services	3,684,695	17.227	3,778,295	16.276	3,688,922	13.526
Jail Debt Service	238,562	1.115	206,700	0.890	140,252	0.514
Government Center Debt Service	515,630	2.411	509,932	2.197	734,235	2.692
Total Levy for County Purposes	\$ 13,088,633	61.193	\$ 13,124,255	56.535	\$ 13,858,075	50.811
Less Credits Payable by State	2,294,055		1,481,700		1,562,640	
Net Levy for County Purposes	\$ 10,794,578		\$ 11,642,555		\$ 12,295,435	
Percentage of Tax Collections for All Purposes	97.41%		97.51%			

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 6

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

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

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 7

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

Shared Revenue

State

Highway users tax	\$	2,591,449
PERA rate reimbursement		37,531
Disparity reduction aid		40,989
Police aid		79,183
Local government aid		1,481,700
Performance aid		622
Market value credit		1,300,408
Market value credit - real property residential		136,049
Temporary court aid		462,021
		462,021

Total Shared Revenue **\$ 6,129,952**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	2,250,084
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Payments

Local

Payments in lieu of taxes	\$	60,789
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Grants

State

Minnesota Department/Board of		
Corrections	\$	168,528
Public Safety		76,432
Transportation		342,669
Health		238,113
Natural Resources		152,914
Pollution Control		3,496
Human Services		2,059,550
Soil and Water Resources		52,108
Office of Environmental Assistance		49,698
		49,698

Total State **\$ 3,143,508**

Federal

Department of		
Agriculture	\$	223,428
Justice		99,792
Transportation		167,831
Health and Human Services		1,194,237
Homeland Security		121,944
Environmental Protection Agency		3,283
		3,283

Total Federal **\$ 1,810,515**

Total State and Federal Grants **\$ 4,954,023**

Total Intergovernmental Revenue **\$ 13,394,848**

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**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 8

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

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the financial statements of Isanti County.
- B. No matters involving internal control over financial reporting were 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*."
- C. No instances of noncompliance material to the financial statements of Isanti County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Isanti County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:
 - Supplemental Food Program for Women, Infants,
and Children CFDA #10.557
 - Temporary Assistance for Needy Families CFDA #93.558
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Isanti County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

Segregation of Duties (96-5)

Previous reports have noted a lack of segregation of accounting functions in the County Treasurer's Office, necessary to ensure adequate internal accounting control.

Resolution

In 2004, an additional full-time position was added to the County Treasurer's staff. With the addition of this individual and reassignment of certain accounting functions, we consider this condition resolved. As with other County departments, we will continue to assess the adequacy of segregating accounting functions in the County Treasurer's Office.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

03-1 Business Continuity Plan

Our previous report recommended that the County prepare a business continuity plan to address current business operations should they become disrupted. Areas of risk such as accounting for the receipt and disbursement of funds, human resource and payroll activities, information technology systems, providing public safety services, and general building operations need to be identified and documented. Strategies must be formulated to guide the County through disruptive times, to enable the re-establishment of operations though most likely at a reduced level. We understand that the County's Department of Homeland Security has initiated a dialog with other County departments to develop such a plan. To date, no plan has been formulated.

We recommend that the County prepare a business continuity plan that will serve as the basis for resuming operations in the event of a disruption. The plan should be tested for effectiveness and include annual assessments as to its application under existing conditions.

Client's Response:

The Isanti County Homeland Security Department has formulated an outline to develop a Business Continuity Plan, herein referred to as the Continuity of Operations Plan (COOP). Currently a strategy has been developed to help ensure that a formalized plan will be completed and approved before the end of 2006. The County is committed to preparing a detailed plan that will serve as the basis for resuming operations in the event of a disruption.

03-2 Capital Asset Policy

Our previous report recommended that the County prepare and implement a written capital asset policy. Our current review found that the County is following an administrative procedure that sets forth the basis for recognizing certain transactions as capital assets. We have reviewed these procedures and found them to be adequate for the County's purposes. However, these procedures should receive formal authorization from the County Board.

We recommend that the County's administrative procedures for recognizing certain transactions as capital assets be submitted to the Board for approval.

Client's Response:

A formalized capital asset policy will be prepared and presented to the County Board of Commissioners for approval in 2005.

PREVIOUSLY REPORTED ITEM RESOLVED

Failure to Test EDP Disaster Recovery Plan (96-13)

Previous reports have recommended that the County test its EDP disaster recovery plan to determine its effectiveness in the event of a disaster.

Resolution

Since this condition has been included in several previous reports, it appears that the County has no current plans to test its EDP disaster recovery plan. As a result, we will not make further recommendations for this finding, but we encourage the County to test its plan when feasible.

OTHER REQUIRED REPORTS

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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Isanti County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Isanti County as of and for the year ended December 31, 2004, and have issued our report thereon dated September 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Isanti County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that for the items tested, Isanti County complied with the material terms and conditions of applicable legal provisions.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: September 30, 2005



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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Isanti County

Compliance

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

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

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

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Isanti County as of and for the year ended December 31, 2004, and have issued our report thereon dated September 30, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: September 30, 2005

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 9

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipient
U.S. Department of Agriculture			
Passed Through Minnesota Department of Agriculture Cooperative Forestry Assistance	10.664	\$ 14,000	\$ -
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	203,524	-
Passed Through Minnesota Department of Human Services State Administrative Matching Grant for Food Stamp Program	10.561	<u>5,904</u>	<u>-</u>
Total U.S. Department of Agriculture		<u>\$ 223,428</u>	<u>\$ -</u>
U.S. Department of Justice			
Passed Through Minnesota Department of Employment and Economic Development Juvenile Accountability Incentive Block Grants	16.523	\$ 9,573	\$ -
Juvenile Justice and Delinquency Prevention	16.540	26,027	-
Title V Delinquency Prevention	16.548	3,704	-
Passed Through Minnesota Department of Corrections Crime Victim Assistance	16.575	17,432	-
Violence Against Women Formula Grant	16.588	<u>43,056</u>	<u>-</u>
Total U.S. Department of Justice		<u>\$ 99,792</u>	<u>\$ -</u>
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Public Transportation for Non-Urbanized Areas	20.509	<u>\$ 167,831</u>	<u>\$ -</u>
U.S. Environmental Protection Agency			
Passed Through Minnesota Department of Health State Indoor Radon Grants	66.032	<u>\$ 3,283</u>	<u>\$ -</u>
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Health Rural Access to Emergency Devices	93.259	\$ 7,600	\$ -
Center for Disease Control and Prevention - Investigations and Technical Assistance	93.283	69,199	-

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 9
(Continued)

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipient
U.S. Department of Health and Human Services (Continued)			
Passed Through Minnesota Department of Human Services			
Family Preservation and Support Services	93.556	19,100	-
Temporary Assistance for Needy Families	93.558	294,040	-
Children's Justice Grant	93.643	2,250	-
Foster Care Title IV-E	93.658	174,876	-
Social Services Block Grant	93.667	201,359	-
Foster Care Independence Program Grant	93.674	6,422	-
State Children's Insurance Program	93.767	30	-
Pre-Admission Screening and Alternate Care	93.778	35,983	-
Block Grants - Community Mental Health Services	93.958	9,876	-
Block Grants - Prevention/Treatment of Substance Abuse	93.959	187,941	138,468
Maternal and Child Health Services Block Grant	93.994	72,752	-
Passed Through Minnesota Department of Education			
Child Care Mandatory and Matching Funds	93.596	112,809	-
Total U.S. Department of Health and Human Services		\$ 1,194,237	\$ 138,468
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
State Domestic Preparedness Equipment Support	97.004	\$ 86,727	\$ -
Homeland Security Training	97.005	1,162	-
Hazard Mitigation Grant	97.039	10,540	-
Emergency Management Performance Grant	97.042	20,787	-
State and Local All Hazards Emergency Operations Planning	97.051	2,728	-
Total U.S. Department of Homeland Security		\$ 121,944	\$ -
Total Federal Awards		\$ 1,810,515	\$ 138,468

**ISANTI COUNTY
CAMBRIDGE, MINNESOTA**

Schedule 9
(Continued)

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipient
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Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Isanti County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. Pass-through grant numbers were not assigned by the pass-through agencies.