

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

CASS COUNTY
WALKER, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2007

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**CASS COUNTY
WALKER, MINNESOTA**

For the Year Ended December 31, 2007



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

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**CASS COUNTY
WALKER, MINNESOTA**

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WALKER, MINNESOTA**

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**CASS COUNTY
WALKER, MINNESOTA**

**ORGANIZATION
AS OF DECEMBER 31, 2007**

| | | <u>Term Expires</u> |
|--|-------------------------|---------------------|
| Elected | | |
| Commissioners | | |
| District I | James Demgen | January 2011 |
| District II | Robert Kangas | January 2011 |
| District III | Jeff Peterson | January 2009 |
| District IV | James Dowson | January 2011 |
| District V | Virgil Foster | January 2009 |
| Attorney | Earl Maus | January 2011 |
| Recorder | Kathryn Norby | January 2011 |
| Sheriff | Randy Fisher | January 2011 |
| Appointed | | |
| Administrator | Robert Yochum | November 2009 |
| Assessor | Steven Kuha | December 2008 |
| Auditor/Treasurer | Sharon K. Anderson | Indefinite |
| Chief Financial Officer | Larry Wolfe | Indefinite |
| Health, Human and Veterans Services | Dorothy Opheim | Indefinite |
| Highway Engineer | Dave Enblom | May 2009 |
| Land Commissioner | Norm Moody | Indefinite |
| Medical Examiner | Dr. Michael B. McGee | January 2008 |

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Cass County

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Cass County, Minnesota, as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Cass County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Cass County Housing and Redevelopment Authority (HRA) and the Pine River Area Sanitary District (District), which comprise the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the HRA and the District, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Cass County as of and for the year ended

December 31, 2007, 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, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 2008, on our consideration of Cass County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. It does not include the Cass County HRA and the Pine River Area Sanitary District, which were audited by other auditors.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

October 15, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**CASS COUNTY
WALKER, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(Unaudited)**

As management of Cass County, Minnesota, we offer the readers of the Cass County financial statements this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the basic financial statements that follow this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

The assets of Cass County exceeded its liabilities on December 31, 2007, by \$133,366,730 (net assets). Of this amount, \$32,108,290 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

As of the close of 2007, Cass County's governmental funds reported combined ending fund balances of \$45,453,196, an increase of \$7,253,611 in comparison with 2006. Of this balance amount, \$5,801,754 was unreserved and undesignated by Cass County, and thus available for spending at the government's discretion.

At the end of 2007, unreserved and undesignated fund balance for the General Fund was \$4,954,481, or 31.5 percent, of the total General Fund expenditures for that year.

Cass County had no debt during 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements are designed to provide readers with a broad overview of Cass County's finances in a manner similar to a private-sector business.

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

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

Cass County's government-wide financial statements distinguish County operations by function. The governmental activities of Cass County include general government, public safety, highways, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development.

The government-wide statements include not only the financial data for Cass County itself (known as the primary government), but also the legally separate Cass County Housing and Redevelopment Authority and the Pine River Area Sanitary District component units, for which Cass County is financially accountable. Further financial information for these component units is audited and reported separately from the financial information provided herein for the primary government itself.

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Cass County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Health, Human, and Veterans Services Special Revenue Fund, and Forfeited Tax Sale Special Revenue Fund. A budgetary comparison statement has been provided for these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on Exhibits 3 through 6 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside of Cass County. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Cass County's own programs or activities. Cass County's fiduciary funds include taxes and penalties, State of Minnesota, school districts, towns and cities, Minnesota Counties Information Systems, and Mississippi Headwaters Board.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the exhibits.

Other information is provided as supplementary information regarding Cass County's intergovernmental revenues.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Cass County's assets exceeded liabilities by \$133,366,730 at the close of 2007. The largest portion of Cass County's net assets (66 percent) reflects the County's investment in capital assets (land, buildings, equipment, and infrastructure such as roads and bridges). However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

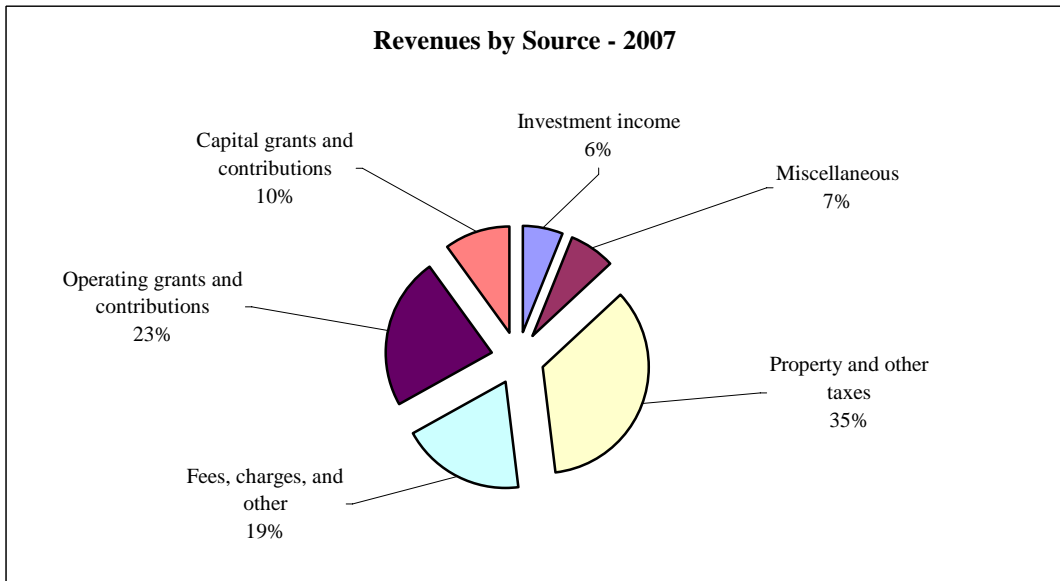
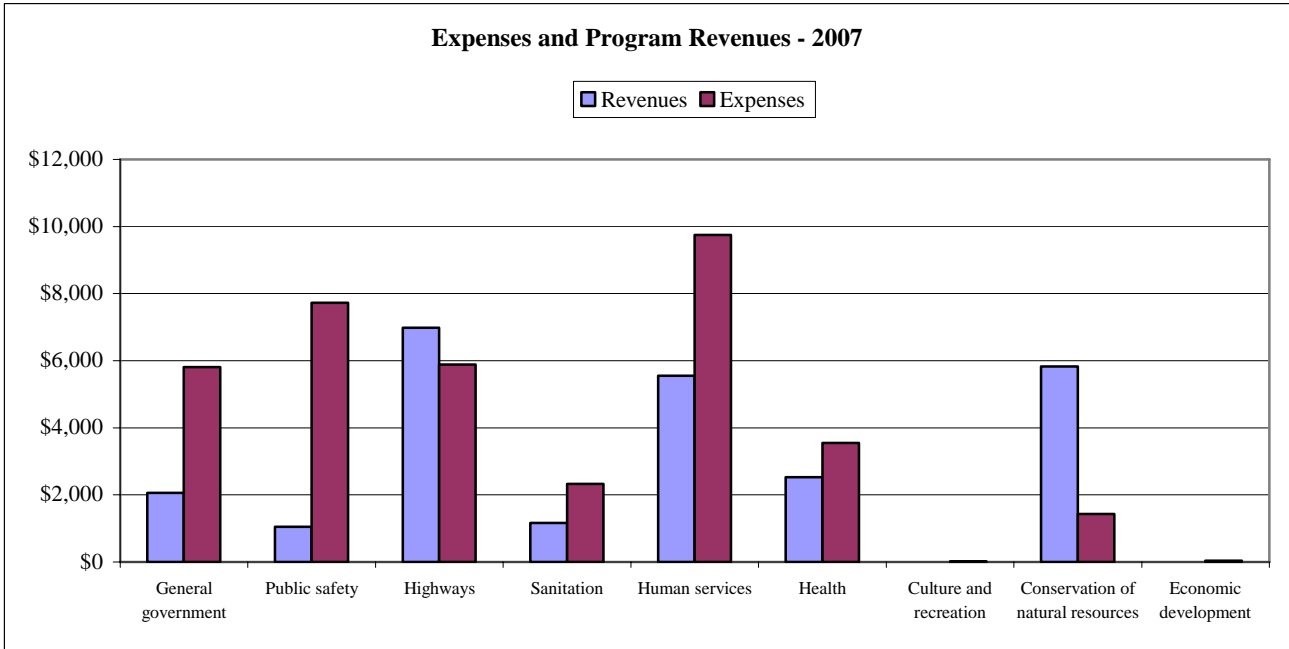
| Governmental Activities | Net Assets (in thousands) | |
|--------------------------|------------------------------|-------------------|
| | 2007 | 2006 |
| Assets | | |
| Current and other assets | \$ 53,708 | \$ 45,261 |
| Capital assets | 87,886 | 84,192 |
| Total Assets | <u>\$ 141,594</u> | <u>\$ 129,453</u> |
| Liabilities | | |
| Long-term liabilities | \$ 3,699 | \$ 2,583 |
| Other liabilities | 4,528 | 5,330 |
| Total Liabilities | <u>\$ 8,227</u> | <u>\$ 7,913</u> |

| | <u>2007</u> | <u>2006</u> |
|----------------------------|-------------------|-------------------|
| Net Assets | | |
| Invested in capital assets | \$ 87,886 | \$ 84,191 |
| Restricted | 13,373 | 12,364 |
| Unrestricted | <u>32,108</u> | <u>24,985</u> |
| Total Net Assets | <u>\$ 133,367</u> | <u>\$ 121,540</u> |

The unrestricted net assets amount of \$32,108,290 as of December 31, 2007, may be used to meet the County's ongoing obligations to citizens and creditors.

**Changes in Net Assets
(in thousands)**

| <u>Governmental Activities</u> | <u>2007</u> | <u>2006</u> |
|------------------------------------|-------------------|-------------------|
| Revenues | | |
| Program revenues | | |
| Charges for services | \$ 9,393 | \$ 7,365 |
| Operating grants and contributions | 11,172 | 11,284 |
| Capital grants and contributions | 4,612 | 4,230 |
| General revenues | | |
| Property taxes | 16,885 | 14,951 |
| Other | <u>6,283</u> | <u>5,083</u> |
| Total Revenues | <u>\$ 48,345</u> | <u>\$ 42,913</u> |
| Expenses | | |
| General government | \$ 5,809 | \$ 6,131 |
| Public safety | 7,727 | 6,776 |
| Highways | 5,881 | 6,243 |
| Sanitation | 2,327 | 2,275 |
| Human services | 9,746 | 9,665 |
| Health | 3,549 | 2,088 |
| Culture and recreation | 17 | 17 |
| Conservation of natural resources | 1,427 | 4,380 |
| Economic development | <u>35</u> | <u>56</u> |
| Total Expenses | <u>\$ 36,518</u> | <u>\$ 37,631</u> |
| Increase in Net Assets | \$ 11,827 | \$ 5,282 |
| Net Assets - January 1 | <u>121,540</u> | <u>116,258</u> |
| Net Assets - December 31 | <u>\$ 133,367</u> | <u>\$ 121,540</u> |



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, Cass County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Cass County's governmental funds reported combined ending fund balances of \$45,453,196, an increase of \$7,253,611 in comparison with the prior year. Unreserved and undesignated fund balance, \$5,801,754 of the ending fund balance, may be available for spending at the County's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed for various reasons.

The General Fund is the chief operating fund for Cass County. At the end of the current fiscal year, it had an unreserved and undesignated fund balance of \$4,954,481. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. General Fund unreserved and undesignated fund balance represents 31.5 percent of total General Fund expenditures. In 2007, ending unreserved and undesignated fund balance in the General Fund increased by \$1,539,092. The primary reasons for this increase were the increase in fund balance within the Road and Bridge Special Revenue Fund to meet the County's cash flow designation policy without assistance from the General Fund and better than expected revenues within the General Fund. The additional fund balance in the Road and Bridge Special Revenue Fund reduced the fund balance required to be designated for cash flow purposes in the General Fund, thereby increasing the General Fund unreserved and undesignated fund balance.

The Road and Bridge Special Revenue Fund's unreserved and undesignated fund balance of \$823,229 at year-end represents 9.94 percent of the fund's annual expenditures. Unreserved and undesignated fund balance increased \$377,203 during 2007, primarily due to revenues exceeding expenditures.

The Health, Human, and Veterans Services Special Revenue Fund's unreserved and undesignated fund balance of \$24,044 at year-end represents 0.18 percent of the fund's annual expenditures. Unreserved and undesignated fund balance decreased \$169,136 during 2007, primarily due to the designation of fund balance to cover the equity payments required for membership in the South Country Health Alliance. Cass County became a member in the joint powers organization in January 2007 to provide integrated medical services to eligible Medical Assistance and General Assistance program recipients within the County.

General Fund Budgetary Highlights

Differences between the original expenditure budget and the final amended budget were relatively minor and were due to the recognition of expenditures that had prior County Board approval.

Actual revenues exceeded budgeted revenues by \$3,022,198, primarily due to increased investment earnings and intergovernmental revenues over budget.

Actual expenditures did not exceed budgeted expenditures for the period ending December 31, 2007.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Cass County's capital assets for its governmental activities at December 31, 2007, totaled \$87,885,739 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The County's net capital assets increased \$3,694,236, or 4.39 percent, from the previous year. The major capital asset event was \$4.3 million gross investment in infrastructure for 2007.

| | Governmental Capital Assets (Net of Depreciation) | |
|--------------------------|--|----------------------|
| | 2007 | 2006 |
| Land | \$ 2,090,681 | \$ 2,083,316 |
| Infrastructure | 65,820,736 | 63,138,893 |
| Buildings | 13,582,510 | 12,750,035 |
| Machinery and equipment | 1,731,737 | 1,848,860 |
| Construction in progress | 4,660,075 | 4,370,399 |
| Total | <u>\$ 87,885,739</u> | <u>\$ 84,191,503</u> |

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

Long-Term Debt

At the end of the current fiscal year, the County had no outstanding debt that was backed by the full faith and credit of the government.

Minnesota statutes limit the amount of debt a County may levy to two percent of its total market value. At the end of 2007, Cass County's legal debt limit was \$105,000,000.

Additional information on the County's long-term liabilities can be found in the notes to the financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The growth of Cass County's tax base at the end of 2007 was 17.2 percent over 2006. This growth in the tax base allows Cass County to have one of the lowest tax rates among neighboring counties. Demand for lakeshore and recreational land has continued to remain strong, which aids in the economic growth of the County.

By the end of 2007, Cass County approved its balanced 2008 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Cass County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Chief Financial Officer of Cass County, P. O. Box 3000, Walker, Minnesota 56484.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

| | Primary Government Governmental Activities | Discretely Presented Component Units |
|---|---|---|
| <u>Assets</u> | | |
| Cash and pooled investments | \$ 40,691,140 | \$ 247,435 |
| Petty cash and change funds | 2,591 | - |
| Investments | 4,139,474 | - |
| Taxes receivable | | |
| Prior - net | 667,687 | - |
| Special assessments receivable | | |
| Prior - net | 155,981 | 10,996 |
| Accounts receivable - net | 2,332,420 | 39,986 |
| Accrued interest receivable | 379,411 | - |
| Due from other governments | 2,166,579 | - |
| Prepaid items | 2,162,800 | 3,161 |
| Inventories | 403,391 | - |
| Note receivable | - | 155,225 |
| Restricted assets | | |
| Cash and pooled investments | - | 123,586 |
| Investment in joint venture | 606,619 | - |
| Capital assets | | |
| Non-depreciable | 6,750,756 | 35,753 |
| Depreciable - net of accumulated depreciation | 81,134,983 | 2,878,113 |
| | \$ 141,593,832 | \$ 3,494,255 |
| <u>Liabilities</u> | | |
| Accounts payable | \$ 1,218,745 | \$ 14,673 |
| Salaries payable | 646,075 | 7,350 |
| Compensated absences payable - current | - | 5,907 |
| Contracts payable | 133,601 | - |
| Due to other governments | 1,859,827 | - |
| Accrued interest payable | - | 3,922 |
| Unearned revenue | 72,744 | - |
| Customer deposits - current | - | 3,850 |
| Advance from other governments | 624,727 | - |
| Long-term liabilities | | |
| Due within one year | 596,963 | 170,869 |
| Due in more than one year | 3,074,420 | 2,003,177 |
| | \$ 8,227,102 | \$ 2,209,748 |

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

**CASS COUNTY
WALKER, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

| | Primary Government Governmental Activities | Discretely Presented Component Units |
|--|---|---|
| <u>Net Assets</u> | | |
| Invested in capital assets - net of related debt | \$ 87,885,739 | \$ 740,445 |
| Restricted for | | |
| General government | 351,816 | - |
| Public safety | 2,951,561 | - |
| Highways and streets | 665,211 | - |
| Conservation of natural resources | 8,858,260 | - |
| Capital projects | - | 15,045 |
| Debt service | 155,816 | - |
| Other purposes | 390,037 | - |
| Unrestricted | 32,108,290 | 529,017 |
| Total Net Assets | \$ 133,366,730 | \$ 1,284,507 |

**CASS COUNTY
WALKER, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | Expenses | Fees, Charges, Fines, and Other |
|--|----------------------|--|
| <u>Functions/Programs</u> | | |
| Primary government | | |
| Governmental activities | | |
| General government | \$ 5,809,094 | \$ 1,805,939 |
| Public safety | 7,727,653 | 408,923 |
| Highways and streets | 5,881,140 | 473,729 |
| Sanitation | 2,327,231 | 1,163,543 |
| Human services | 9,745,745 | 640,978 |
| Health | 3,548,769 | 1,323,639 |
| Culture and recreation | 16,812 | - |
| Conservation of natural resources | 1,426,658 | 3,576,015 |
| Economic development | 35,000 | - |
| | \$ 36,518,102 | \$ 9,392,766 |
| Total Primary Government | \$ 36,518,102 | \$ 9,392,766 |
| Component units | | |
| Housing and Redevelopment Authority | \$ 529,167 | \$ 51,996 |
| Pine River Area Sanitary District | 413,390 | 365,239 |
| | \$ 942,557 | \$ 417,235 |
| Total Component Units | \$ 942,557 | \$ 417,235 |
| General Revenues | | |
| Property taxes | | |
| Mortgage registry and deed tax | | |
| Other taxes | | |
| Payments in lieu of tax | | |
| Grants and contributions not restricted to specific programs | | |
| Unrestricted investment earnings | | |
| Miscellaneous | | |
| Gain on sale of capital assets | | |
| | | |
| Total general revenues | | |
| Change in net assets | | |
| Net Assets - Beginning | | |
| Net Assets - Ending | | |

EXHIBIT 2

| Program Revenues | | Net (Expense) Revenue and Changes in Net Assets | |
|---|---|--|---|
| Operating Grants and Contributions | Capital Grants and Contributions | Primary Governmental Activities | Discretely Presented Component Units |
| \$ 259,493 | \$ - | \$ (3,743,662) | |
| 644,570 | - | (6,674,160) | |
| 3,570,661 | 2,939,754 | 1,103,004 | |
| - | - | (1,163,688) | |
| 4,912,135 | - | (4,192,632) | |
| 1,203,019 | - | (1,022,111) | |
| - | - | (16,812) | |
| 581,751 | 1,672,310 | 4,403,418 | |
| - | - | (35,000) | |
| \$ 11,171,629 | \$ 4,612,064 | \$ (11,341,643) | |
| \$ 429,852 | \$ - | | \$ (47,319) |
| - | 94,190 | | 46,039 |
| \$ 429,852 | \$ 94,190 | | \$ (1,280) |
| | | \$ 16,885,412 | \$ - |
| | | 57,734 | - |
| | | 23,535 | - |
| | | 966,093 | - |
| | | 2,061,688 | - |
| | | 2,823,309 | 15,009 |
| | | 255,640 | - |
| | | 94,700 | 500 |
| | | \$ 23,168,111 | \$ 15,509 |
| | | \$ 11,826,468 | \$ 14,229 |
| | | 121,540,262 | 1,270,278 |
| | | \$ 133,366,730 | \$ 1,284,507 |

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**CASS COUNTY
WALKER, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

| | General | Road and Bridge |
|---|----------------------|----------------------------|
| <u>Assets</u> | | |
| Cash and pooled investments | \$ 22,415,625 | \$ 5,283,654 |
| Petty cash and change funds | 2,251 | 100 |
| Undistributed cash in agency funds | 164,264 | 47,535 |
| Investments | - | - |
| Taxes receivable | | |
| Prior | 303,397 | 133,549 |
| Special assessments | | |
| Prior | 155,981 | - |
| Accounts receivable | 227,361 | - |
| Accrued interest receivable | 320,499 | - |
| Due from other funds | 393,097 | 33,067 |
| Due from other governments | 147,382 | 1,025,627 |
| Prepaid expense | - | - |
| Inventories | - | 403,391 |
| | \$ 24,129,857 | \$ 6,926,923 |
| Total Assets | \$ 24,129,857 | \$ 6,926,923 |
| <u>Liabilities and Fund Balances</u> | | |
| Liabilities | | |
| Accounts payable | \$ 570,601 | \$ 156,241 |
| Salaries payable | 340,801 | 82,618 |
| Compensated absences - current | 125,036 | 46,385 |
| Contracts payable | - | 133,601 |
| Due to other funds | 2,602 | - |
| Due to other governments | - | 2,782 |
| Deferred revenue - unavailable | 379,856 | 880,624 |
| Deferred revenue - unearned | 28,399 | - |
| Advance from other governments | - | 557,727 |
| | \$ 1,447,295 | \$ 1,859,978 |
| Total Liabilities | \$ 1,447,295 | \$ 1,859,978 |

EXHIBIT 3

| Health, Human, and Veterans Services | Forfeited Tax Sale | Environmental Trust | Other Governmental Funds | Total Governmental Funds |
|---|-------------------------------|--------------------------------|---|---|
| \$ 6,644,351 | \$ 4,427,343 | \$ 602,737 | \$ 1,025,814 | \$ 40,399,524 |
| 140 | 100 | - | - | 2,591 |
| 71,795 | - | - | 8,022 | 291,616 |
| - | - | 4,139,474 | - | 4,139,474 |
| 208,542 | - | - | 22,199 | 667,687 |
| - | - | - | - | 155,981 |
| 120,965 | 1,963,708 | 20,386 | - | 2,332,420 |
| - | - | 58,912 | - | 379,411 |
| - | - | - | 13,905 | 440,069 |
| 993,570 | - | - | - | 2,166,579 |
| - | - | - | 2,162,800 | 2,162,800 |
| - | - | - | - | 403,391 |
| \$ 8,039,363 | \$ 6,391,151 | \$ 4,821,509 | \$ 3,232,740 | \$ 53,541,543 |
| \$ 457,434 | \$ 13,723 | \$ 1,120 | \$ 19,626 | \$ 1,218,745 |
| 197,174 | 25,482 | - | - | 646,075 |
| 85,930 | 7,297 | - | - | 264,648 |
| - | - | - | - | 133,601 |
| 422 | 407,153 | - | 29,892 | 440,069 |
| 525,404 | 575,680 | - | 162,102 | 1,265,968 |
| 178,241 | 1,963,708 | - | 19,341 | 3,421,770 |
| 23,959 | - | 20,386 | - | 72,744 |
| - | 67,000 | - | - | 624,727 |
| \$ 1,468,564 | \$ 3,060,043 | \$ 21,506 | \$ 230,961 | \$ 8,088,347 |

**CASS COUNTY
WALKER, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

| | General | Road and Bridge |
|---|----------------------|----------------------------|
| <u>Liabilities and Fund Balances</u> | | |
| (Continued) | | |
| Fund Balances | | |
| Reserved for | | |
| Prepaid items | \$ - | \$ - |
| Inventories | - | 403,391 |
| Missing heirs | 30,374 | - |
| Law library | 49,206 | - |
| Recorder's equipment | 219,094 | - |
| Recorder's compliance fund | 76,657 | - |
| Attorney's forfeiture | 6,859 | - |
| Enhanced 911 | 242,475 | - |
| Federal projects | 359,663 | - |
| Forestry development | - | - |
| Environmental trust | - | - |
| Wetland activity | 67,162 | - |
| SSI/DAA fees | - | - |
| Birth/death certificates | - | - |
| Unreserved | | |
| Designated for future expenditures | 5,250,000 | 31,800 |
| Designated for cash flows | 6,525,342 | 3,808,525 |
| Designated for uninsured claims | 500,000 | - |
| Designated for health insurance | 1,926,760 | - |
| Designated for public health grants | - | - |
| Designated for OSHA grants | - | - |
| Designated for South Country Health Alliance | - | - |
| Designated for Longville Ambulance Subordinate Service District | 62,449 | - |
| Designated for petty cash funds | 2,251 | - |
| Designated for compensated absences | 2,409,789 | - |
| Undesignated | 4,954,481 | 823,229 |
| Unreserved, reported in nonmajor | | |
| Special revenue funds | - | - |
| Debt service fund | - | - |
| Capital projects fund | - | - |
| Total Fund Balances | \$ 22,682,562 | \$ 5,066,945 |
| Total Liabilities and Fund Balances | \$ 24,129,857 | \$ 6,926,923 |

EXHIBIT 3
(Continued)

| <u>Health, Human, and Veterans Services</u> | <u>Forfeited Tax Sale</u> | <u>Environmental Trust</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------------------|--------------------------------|---|---|
| \$ - | \$ - | \$ - | \$ 2,162,800 | \$ 2,162,800 |
| - | - | - | - | 403,391 |
| - | - | - | - | 30,374 |
| - | - | - | - | 49,206 |
| - | - | - | - | 219,094 |
| - | - | - | - | 76,657 |
| - | - | - | - | 6,859 |
| - | - | - | - | 242,475 |
| - | - | - | - | 359,663 |
| - | 3,331,108 | - | - | 3,331,108 |
| - | - | 4,800,003 | - | 4,800,003 |
| - | - | - | - | 67,162 |
| 6,683 | - | - | - | 6,683 |
| 140 | - | - | - | 140 |
| - | - | - | - | 5,281,800 |
| 5,230,932 | - | - | - | 15,564,799 |
| - | - | - | - | 500,000 |
| - | - | - | - | 1,926,760 |
| 4,000 | - | - | - | 4,000 |
| 5,000 | - | - | - | 5,000 |
| 1,300,000 | - | - | - | 1,300,000 |
| - | - | - | - | 62,449 |
| - | - | - | - | 2,251 |
| - | - | - | - | 2,409,789 |
| 24,044 | - | - | - | 5,801,754 |
| - | - | - | 136,877 | 136,877 |
| - | - | - | 155,816 | 155,816 |
| - | - | - | 546,286 | 546,286 |
| <u>\$ 6,570,799</u> | <u>\$ 3,331,108</u> | <u>\$ 4,800,003</u> | <u>\$ 3,001,779</u> | <u>\$ 45,453,196</u> |
| <u>\$ 8,039,363</u> | <u>\$ 6,391,151</u> | <u>\$ 4,821,509</u> | <u>\$ 3,232,740</u> | <u>\$ 53,541,543</u> |

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**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007**

| | | |
|---|--------------------|---------------------------|
| Fund balances - total governmental funds (Exhibit 3) | \$ | 45,453,196 |
| 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. | | 87,885,739 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. This adjustment is deferred revenue - unavailable, less amounts included in deferred revenue that will be paid to other governments when collected. | | |
| Deferred revenue - unavailable | \$ 3,421,770 | |
| Due to other governments | <u>(593,859)</u> | 2,827,911 |
| Cass County has an equity interest in a joint venture. The investment is not a current resource and, therefore, is not reported in the funds. | | 606,619 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds. | | |
| South Country Health Alliance membership assessment | \$ (996,946) | |
| Compensated absences | <u>(2,409,789)</u> | <u>(3,406,735)</u> |
| Net Assets of Governmental Activities (Exhibit 1) | \$ | <u>133,366,730</u> |

**CASS COUNTY
WALKER, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | General | Road and Bridge |
|--|----------------------|----------------------------|
| Revenues | | |
| Taxes | \$ 7,564,043 | \$ 3,480,116 |
| Special assessments | 1,671,436 | - |
| Licenses and permits | 87,985 | - |
| Intergovernmental | 3,186,180 | 7,088,835 |
| Charges for services | 3,170,350 | 462,804 |
| Fines and forfeits | 9,568 | - |
| Gifts and contributions | 8 | - |
| Investment earnings | 2,498,656 | - |
| Miscellaneous | 479,289 | 105,625 |
| | \$ 18,667,515 | \$ 11,137,380 |
| Expenditures | | |
| Current | | |
| General government | \$ 5,572,641 | \$ - |
| Public safety | 7,614,908 | - |
| Highways and streets | - | 8,284,874 |
| Sanitation | 2,295,938 | - |
| Human services | - | - |
| Health | - | - |
| Culture and recreation | 15,000 | - |
| Conservation of natural resources | 189,115 | - |
| Economic development | 35,000 | - |
| Capital outlay | - | - |
| | \$ 15,722,602 | \$ 8,284,874 |
| Excess of Revenues Over (Under) Expenditures | \$ 2,944,913 | \$ 2,852,506 |
| Other Financing Sources (Uses) | | |
| Transfers in | \$ 445,097 | \$ - |
| Transfers out | - | - |
| | \$ 445,097 | \$ - |
| Change in Fund Balance | \$ 3,390,010 | \$ 2,852,506 |
| Fund Balance - January 1 | 19,292,552 | 2,129,453 |
| Increase (decrease) in reserved for inventories | - | 84,986 |
| | \$ 22,682,562 | \$ 5,066,945 |
| Fund Balance - December 31 | \$ 22,682,562 | \$ 5,066,945 |

EXHIBIT 5

| Health, Human, and Veterans Services | Forfeited Tax Sale | Environmental Trust | Other Governmental Funds | Total Governmental Funds |
|---|-------------------------------|--------------------------------|---|---|
| \$ 5,233,458 | \$ - | \$ - | \$ 594,153 | \$ 16,871,770 |
| - | - | - | - | 1,671,436 |
| 9,575 | - | - | - | 97,560 |
| 6,312,514 | 354,412 | - | 101,987 | 17,043,928 |
| 1,402,174 | - | - | 2,646 | 5,037,974 |
| - | - | - | - | 9,568 |
| 462 | - | - | - | 470 |
| - | - | 323,131 | 1,522 | 2,823,309 |
| 552,868 | 2,377,058 | 27,416 | - | 3,542,256 |
| \$ 13,511,051 | \$ 2,731,470 | \$ 350,547 | \$ 700,308 | \$ 47,098,271 |
| \$ 172,022 | \$ - | \$ - | \$ - | \$ 5,744,663 |
| - | - | - | 26,973 | 7,641,881 |
| - | - | - | 337,835 | 8,622,709 |
| - | - | - | 1,086 | 2,297,024 |
| 9,686,356 | - | - | - | 9,686,356 |
| 3,167,942 | - | - | - | 3,167,942 |
| - | - | - | - | 15,000 |
| - | 1,982,338 | - | - | 2,171,453 |
| - | - | - | - | 35,000 |
| - | - | 265,233 | 282,385 | 547,618 |
| \$ 13,026,320 | \$ 1,982,338 | \$ 265,233 | \$ 648,279 | \$ 39,929,646 |
| \$ 484,731 | \$ 749,132 | \$ 85,314 | \$ 52,029 | \$ 7,168,625 |
| \$ - | \$ - | \$ - | \$ 13,905 | \$ 459,002 |
| (40) | (458,962) | - | - | (459,002) |
| \$ (40) | \$ (458,962) | \$ - | \$ 13,905 | \$ - |
| \$ 484,691 | \$ 290,170 | \$ 85,314 | \$ 65,934 | \$ 7,168,625 |
| 6,086,108 | 3,040,938 | 4,714,689 | 2,935,845 | 38,199,585 |
| - | - | - | - | 84,986 |
| \$ 6,570,799 | \$ 3,331,108 | \$ 4,800,003 | \$ 3,001,779 | \$ 45,453,196 |

**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 7,168,625

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. Included in deferred revenue are timber sales receivable, that when received will be paid to other governments. On the government-wide financial statements, these are reported as due to other governments. The adjustment to revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred in unavailable.

| | | |
|--------------------------------|----------------|-----------|
| December 31 | | |
| Deferred revenue - unavailable | \$ 3,421,770 | |
| Less: timber sales | (593,859) | |
| January 1 | | |
| Deferred revenue - unavailable | (1,809,057) | |
| Less: timber sales | <u>227,445</u> | 1,246,299 |

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 assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold.

| | | |
|--|--------------------|-----------|
| Expenditures for general capital assets and infrastructure | \$ 6,197,077 | |
| Current year depreciation | <u>(2,502,841)</u> | 3,694,236 |
| Transactions to report investment in joint venture | | |
| Membership assessment payable | \$ (1,345,826) | |
| Assessments paid | 348,880 | |
| Increase in investment in joint venture | <u>606,619</u> | (390,327) |

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 compensated absences | \$ 22,649 | |
| Change in inventories | <u>84,986</u> | <u>107,635</u> |

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 11,826,468

FIDUCIARY FUNDS

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CASS COUNTY
WALKER, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2007

| | <u>Agency</u> |
|-----------------------------|-----------------------------------|
| <u>Assets</u> | |
| Cash and pooled investments | \$ 1,575,675 |
| Petty cash and change funds | 440 |
| Total Assets | <u><u>\$ 1,576,115</u></u> |
| <u>Liabilities</u> | |
| Salaries payable | \$ 36,461 |
| Due to other governments | 1,463,129 |
| Prepaid taxes | 76,525 |
| Total Liabilities | <u><u>\$ 1,576,115</u></u> |

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DISCRETELY PRESENTED COMPONENT UNITS

**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT 8

**COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2007**

| | Housing and Redevelopment Authority | Pine River Area Sanitary District | Total |
|--|--|--|---------------------|
| <u>Assets</u> | | | |
| Current assets | | | |
| Cash and pooled investments | \$ 227,392 | \$ 20,043 | \$ 247,435 |
| Special assessments - prior | - | 10,996 | 10,996 |
| Accounts receivable | 20,777 | 19,209 | 39,986 |
| Prepaid items | 1,293 | 1,868 | 3,161 |
| Total current assets | \$ 249,462 | \$ 52,116 | \$ 301,578 |
| Restricted assets | | | |
| Cash and pooled investments | \$ - | \$ 123,586 | \$ 123,586 |
| Noncurrent assets | | | |
| Note receivable | \$ 155,225 | \$ - | \$ 155,225 |
| Capital assets | | | |
| Nondepreciable | 25,753 | 10,000 | 35,753 |
| Depreciable - net | 443,078 | 2,435,035 | 2,878,113 |
| Total noncurrent assets | \$ 624,056 | \$ 2,445,035 | \$ 3,069,091 |
| Total Assets | \$ 873,518 | \$ 2,620,737 | \$ 3,494,255 |
| <u>Liabilities</u> | | | |
| Current liabilities | | | |
| Accounts payable | \$ 6,393 | \$ 8,280 | \$ 14,673 |
| Salaries payable | 2,280 | 5,070 | 7,350 |
| Compensated absences payable - current | 1,434 | 4,473 | 5,907 |
| Accrued interest payable | - | 3,922 | 3,922 |
| Customer deposits - current | 3,850 | - | 3,850 |
| Notes payable - current | - | 170,869 | 170,869 |
| Total current liabilities | \$ 13,957 | \$ 192,614 | \$ 206,571 |
| Noncurrent liabilities | | | |
| Loans payable | \$ 77,333 | \$ - | \$ 77,333 |
| General obligation notes payable - long-term | - | 1,921,297 | 1,921,297 |
| Other noncurrent liabilities | 4,547 | - | 4,547 |
| Total noncurrent liabilities | \$ 81,880 | \$ 1,921,297 | \$ 2,003,177 |
| Total Liabilities | \$ 95,837 | \$ 2,113,911 | \$ 2,209,748 |

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

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**CASS COUNTY
WALKER, MINNESOTA**

**EXHIBIT 8
(Continued)**

**COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2007**

| | <u>Housing and Redevelopment Authority</u> | <u>Pine River Area Sanitary District</u> | <u>Total</u> |
|--|--|--|----------------------------|
| <u>Net Assets</u> | | | |
| Invested in capital assets - net of related debt | \$ 391,498 | \$ 348,947 | \$ 740,445 |
| Restricted for capital projects | - | 15,045 | 15,045 |
| Unrestricted | <u>386,183</u> | <u>142,834</u> | <u>529,017</u> |
| Total Net Assets | <u>\$ 777,681</u> | <u>\$ 506,826</u> | <u>\$ 1,284,507</u> |

**CASS COUNTY
WALKER, MINNESOTA**

**COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | <u>Expenses</u> | <u>Fees, Charges, Fines, and Other</u> |
|-------------------------------------|--------------------------------|--|
| Component Units | | |
| Housing and Redevelopment Authority | \$ 529,167 | \$ 51,996 |
| Pine River Area Sanitary District | 413,390 | 365,239 |
| Total Component Units | <u>\$ 942,557</u> | <u>\$ 417,235</u> |
| | | |
| | General Revenues | |
| | Investment income | |
| | Gain on sale of capital assets | |
| | Total general revenues | |
| | Change in net assets | |
| | Net Assets - Beginning | |
| | Net Assets - Ending | |

EXHIBIT 9

| Program Revenues | | Net (Expense) Revenue and Changes in Net Assets | | |
|---|---|--|--|---------------------|
| Operating Grants and Contributions | Capital Grants and Contributions | Housing and Redevelopment Authority | Pine River Area Sanitary District | Total |
| \$ 429,852 | \$ - | \$ (47,319) | \$ - | \$ (47,319) |
| - | 94,190 | - | 46,039 | 46,039 |
| \$ 429,852 | \$ 94,190 | \$ (47,319) | \$ 46,039 | \$ (1,280) |
| | | \$ 9,608 | \$ 5,401 | \$ 15,009 |
| | | - | 500 | 500 |
| | | \$ 9,608 | \$ 5,901 | \$ 15,509 |
| | | \$ (37,711) | \$ 51,940 | \$ 14,229 |
| | | 815,392 | 454,886 | 1,270,278 |
| | | \$ 777,681 | \$ 506,826 | \$ 1,284,507 |

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**CASS COUNTY
WALKER, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Cass County was established May 7, 1897, 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 Cass County (primary government) and its component units for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Blended Component Unit

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

| <u>Component Unit</u> | <u>Component Unit Included in Reporting Entity Because</u> | <u>Separate Financial Statements</u> |
|---|--|---|
| Shingobee Island Water and Sewer Commission (Commission) provides services pursuant to Minn. Stat. § 116A.24. | The County Board also serves as the Board of the Commission. | Separate financial statements are not prepared. |

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Units

While part of the reporting entity, discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. The following component units of Cass County are discretely presented:

| <u>Component Unit</u> | <u>Component Unit Included in Reporting Entity Because</u> | <u>Separate Financial Statements Available at</u> |
|--|--|--|
| Cass County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001-.047. | County appoints members, and the HRA is a financial burden. | Cass County HRA Backus, Minnesota 56435 |
| Pine River Area Sanitary District (District) provides services pursuant to Minn. Stat. § 116A.24. | County appoints members, and the District is a financial burden. | Pine River Area Sanitary District P. O. Box 354 Pine River, Minnesota 56474 |

Joint Ventures

The County participates in several joint ventures described in Note 4.D. The County also participates in a jointly-governed organization described in Note 4.E.

B. Basic Financial Statements

1. Government-Wide Statements

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

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental 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.

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

The Forfeited Tax Sale Special Revenue Fund is used to account for proceeds from the sale or rental of lands forfeited to the State of Minnesota pursuant to Minn. Stat. ch. 282. The distribution of the net proceeds, after deducting the expenses of the County for managing the tax-forfeited lands, is governed by Minn. Stat. § 282.08. Title to the tax-forfeited lands remains with the state until sold by the County.

The Environmental Trust Permanent Fund is used to account for sale of land, including interest, under Minn. Laws 1999, ch. 180. The principal from the sale of land may not be expended while any interest earnings may be spent by the County Board only for the purposes related to the improvement of natural resources.

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Shared revenues are generally

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Cass County considers all revenues as available if collected within 60 days after the end of the current period, except for reimbursement (expenditure driven) grants for which the period is 90 days. Property and other taxes, shared revenues, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Pooled Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2007, 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 2007 were \$2,498,656.

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Deposits and Investments

Cass 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 (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

3. Receivables and Payables

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).

All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including those of the discretely presented component units, are shown net of an allowance for uncollectibles.

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

4. 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 purchased rather than when consumed.

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Inventories and Prepaid Items (Continued)

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$25,000 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 market value at the date of donation.

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

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

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

| <u>Assets</u> | <u>Years</u> |
|------------------------------------|--------------|
| Buildings | 50 |
| Building improvements | 10 - 30 |
| Public domain infrastructure | 50 - 75 |
| Furniture, equipment, and vehicles | 5 - 12 |

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Compensated Absences

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

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.

8. Long-Term Obligations

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

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

**CASS COUNTY
WALKER, 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.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

| | | |
|---|----|------------|
| Government-wide statement of net assets | | |
| Governmental activities | | |
| Cash and pooled investments | \$ | 40,691,140 |
| Petty cash and change funds | | 2,591 |
| Investments | | 4,139,474 |
| Discretely presented component units | | |
| Cash and pooled investments | | 247,435 |
| Restricted cash and pooled investments | | 123,586 |
| Statement of fiduciary net assets | | |
| Cash and pooled investments | | 1,575,675 |
| Petty cash and change funds | | 440 |
| | | <hr/> |
| Total Cash and Investments | \$ | 46,780,341 |
| | | <hr/> |

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has a deposit policy for custodial credit risk and follows Minnesota statutes regarding pledged collateral. The market value of collateral must equal 110 percent of the deposits not covered by insurance or surety bonds. As of December 31, 2007, both the County's deposits and the deposits of its discretely presented component units were fully covered by insurance, surety bonds, and collateral, and were not exposed to custodial credit risk.

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County has a policy to minimize investment custodial credit risk. Of the County's investments at December 31, 2007, \$1,103,282 was held by the counterparty, or by its trust department or agent, but not in the County's name.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that U.S. Treasury securities, U.S. agency securities, and obligations backed by U.S. Treasury and/or U.S. agency securities may be held without limit.

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's deposit and investment balances at December 31, 2007, and information relating to potential investment risks:

| Investment Type | Credit Risk | | Concentration Risk | Interest Rate Risk | Carrying (Fair) Value |
|---|---------------|---------------|-----------------------------|--------------------|-----------------------|
| | Credit Rating | Rating Agency | Over 5 Percent of Portfolio | Maturity Date | |
| U.S. government agency securities | | | | | |
| Federal National Mortgage Association Pool | AAA | Moody's/S&P | | 02/23/2010 | \$ 202,916 |
| Federal National Mortgage Association Pool | AAA | Moody's/S&P | | 09/05/2012 | 733,382 |
| Federal National Mortgage Association Pool | AAA | Moody's/S&P | | 09/15/2015 | 510,125 |
| Federal National Mortgage Association Pool | AAA | Moody's/S&P | | 04/25/2015 | 402,250 |
| Federal National Mortgage Association Pool | AAA | Moody's/S&P | | 05/07/2015 | 1,002,500 |
| Federal National Mortgage Association Pool | AAA | Moody's/S&P | | 12/12/2017 | 1,253,515 |
| Federal National Mortgage Association Pool | AAA | Moody's/S&P | | 10/11/2016 | 458,289 |
| Federal National Mortgage Association Pool | AAA | Moody's/S&P | | 12/05/2016 | 301,032 |
| Federal National Mortgage Association Pool | AAA | Moody's/S&P | | 05/17/2022 | 304,500 |
| Federal National Mortgage Association Pool | AAA | Moody's/S&P | | 08/25/2021 | 204,188 |
| Federal National Mortgage Association Pool | AAA | Moody's/S&P | | 06/06/2022 | 503,750 |
| Federal National Mortgage Association Pool | AAA | Moody's/S&P | | 11/09/2022 | 502,970 |
| Federal National Mortgage Association Pool | AAA | Moody's/S&P | | 11/30/2022 | 348,796 |
| Federal National Mortgage Association Pool | AAA | Moody's/S&P | | 02/22/2012 | 300,750 |
| Federal National Mortgage Association Pool | AAA | Moody's/S&P | | 11/28/2017 | 499,063 |
| Federal National Mortgage Association Pool | AAA | Moody's/S&P | | 09/27/2021 | 400,124 |
| Total Federal National Mortgage Association Pool | | | 20.9% | | \$ 7,928,150 |
| Federal Farm Credit Bank | AAA | Moody's/S&P | <5% | 09/15/2016 | \$ 506,250 |
| Federal Home Loan Mortgage Corporation Note | | | | | |
| Federal Home Loan Mortgage Corporation Note | AAA | Moody's/S&P | | 06/18/2014 | \$ 501,705 |
| Federal Home Loan Mortgage Corporation Note | AAA | Moody's/S&P | | 11/26/2014 | 905,846 |
| Federal Home Loan Mortgage Corporation Note | AAA | Moody's/S&P | | 11/15/2017 | 494,859 |
| Federal Home Loan Mortgage Corporation Note | AAA | Moody's/S&P | | 12/18/2017 | 700,000 |
| Federal Home Loan Mortgage Corporation Note | AAA | Moody's/S&P | | 12/27/2017 | 400,000 |
| Federal Home Loan Mortgage Corporation Note | AAA | Moody's/S&P | | 08/18/2016 | 257,758 |
| Federal Home Loan Mortgage Corporation Note | AAA | Moody's/S&P | | 10/10/2012 | 504,945 |
| Federal Home Loan Mortgage Corporation Note | AAA | Moody's/S&P | | 01/26/2022 | 507,170 |
| Federal Home Loan Mortgage Corporation Note | AAA | Moody's/S&P | | 11/15/2022 | 499,785 |
| Federal Home Loan Mortgage Corporation Note | AAA | Moody's/S&P | | 08/25/2020 | 200,524 |
| Federal Home Loan Mortgage Corporation Note | AAA | Moody's | | 03/01/2009 | 32 |
| Federal Home Loan Mortgage Corporation Note | AAA | Moody's | | 06/12/2013 | 603,120 |
| Federal Home Loan Mortgage Corporation Note | AAA | Moody's/S&P | | 01/11/2010 | 400,132 |
| Federal Home Loan Mortgage Corporation Note | AAA | Moody's/S&P | | 12/19/2017 | 249,074 |
| Federal Home Loan Mortgage Corporation Note | AAA | Moody's | | 10/15/2017 | 500,156 |
| Total Federal Home Loan Mortgage Corporation Note | | | 17.8% | | \$ 6,725,106 |

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

| Investment Type | Credit Risk | | Concentration Risk | Interest Rate Risk | Carrying (Fair) Value |
|--|---------------|---------------|-----------------------------|--------------------|-----------------------|
| | Credit Rating | Rating Agency | Over 5 Percent of Portfolio | Maturity Date | |
| Federal Home Loan Bank Bonds | AAA | Moody's | | 05/01/2013 | \$ 511,395 |
| Federal Home Loan Bank Bonds | AAA | Moody's | | 05/14/2013 | 255,463 |
| Federal Home Loan Bank Bonds | AAA | Moody's | | 06/19/2013 | 123,742 |
| Federal Home Loan Bank Bonds | AAA | Moody's/S&P | | 06/26/2013 | 701,638 |
| Federal Home Loan Bank Bonds | AAA | Moody's/S&P | | 06/26/2013 | 748,103 |
| Federal Home Loan Bank Bonds | AAA | Moody's/S&P | | 06/26/2013 | 748,103 |
| Federal Home Loan Bank Bonds | AAA | Moody's | | 07/16/2013 | 199,370 |
| Federal Home Loan Bank Bonds | AAA | Moody's | | 07/17/2013 | 757,950 |
| Federal Home Loan Bank Bonds | AAA | Moody's | | 07/24/2013 | 1,010,600 |
| Federal Home Loan Bank Bonds | AAA | Moody's | | 07/29/2008 | 1,251,963 |
| Federal Home Loan Bank Bonds | AAA | Moody's/S&P | | 08/12/2013 | 498,110 |
| Federal Home Loan Bank Bonds | AAA | Moody's | | 03/30/2010 | 401,916 |
| Federal Home Loan Bank Bonds | AAA | S&P | | 04/08/2008 | 603,006 |
| Federal Home Loan Bank Bonds | AAA | Moody's/S&P | | 10/15/2009 | 150,587 |
| Federal Home Loan Bank Bonds | AAA | Moody's/S&P | | 10/05/2009 | 500,090 |
| Federal Home Loan Bank Bonds | AAA | Moody's/S&P | | 05/24/2017 | 124,998 |
| Federal Home Loan Bank Bonds | AAA | Moody's | | 07/09/2013 | 498,110 |
| Federal Home Loan Bank Bonds | AAA | Moody's/S&P | | 04/10/2012 | 200,542 |
| Federal Home Loan Bank Bonds | AAA | Moody's/S&P | | 10/01/2012 | 504,375 |
| Federal Home Loan Bank Bonds | AAA | Moody's/S&P | | 11/15/2012 | 651,422 |
| Federal Home Loan Bank Bonds | AAA | Moody's/S&P | | 11/20/2012 | 501,250 |
| Federal Home Loan Bank Bonds | AAA | Moody's | | 07/16/2018 | 495,156 |
| Federal Home Loan Bank Bonds | AAA | Moody's | | 08/23/2010 | 100,063 |
| Federal Home Loan Bank Bonds | AAA | Moody's/S&P | | 06/30/2008 | 300,000 |
| Federal Home Loan Bank Bonds | AAA | Moody's | | 12/19/2008 | 501,565 |
| Federal Home Loan Bank Bonds | AAA | Moody's | | 09/30/2010 | 300,939 |
| Federal Home Loan Bank Bonds | AAA | Moody's | | 12/15/2008 | 299,814 |
| Federal Home Loan Bank Bonds | AAA | Moody's | | 06/04/2009 | 301,782 |
| Federal Home Loan Bank Bonds | AAA | Moody's | | 06/18/2010 | 502,815 |
| Federal Home Loan Bank Bonds | AAA | Moody's | | 11/23/2012 | 502,030 |
| Federal Home Loan Bank Bonds | AAA | Moody's/S&P | | 04/16/2010 | 250,860 |
| Federal Home Loan Bank Bonds | AAA | S&P | | 06/26/2012 | 515,155 |
| Federal Home Loan Bank Bonds | AAA | S&P | | 07/02/2012 | 522,970 |
| Federal Home Loan Bank Bonds | AAA | S&P | | 07/30/2008 | 500,315 |
| Federal Home Loan Bank Bonds | AAA | Moody's | | 10/15/2012 | 352,846 |
| Federal Home Loan Bank Bonds | AAA | S&P | | 10/29/2013 | 502,970 |
| Federal Home Loan Bank Bonds | AAA | Moody's | | 05/22/2013 | 455,612 |
| Federal Home Loan Bank Bonds | AAA | Moody's/S&P | | 10/22/2012 | 404,500 |
| Federal Home Loan Bank Bonds | AAA | Moody's | | 03/24/2008 | 299,625 |
| Federal Home Loan Bank Bonds | AAA | Moody's/S&P | | 11/28/2022 | 504,375 |
| Total Federal Home Loan Bank Bonds | | | 49.0% | | \$ 18,556,125 |
| Federal Home Loan Bank Repurchase Agreements | | | | | |
| Federal Home Loan Bank | | | | | \$ 500,313 |
| Federal Home Loan Bank | | | | | 104,844 |
| Federal Home Loan Bank | | | | | 498,125 |
| Total Federal Home Loan Bank Repurchase Agreements | | | <5% | | \$ 1,103,282 |

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

| Investment Type | Credit Risk | | Concentration Risk | Interest Rate Risk | Carrying (Fair) Value |
|--|---------------|---------------|-----------------------------|--------------------|-----------------------|
| | Credit Rating | Rating Agency | Over 5 Percent of Portfolio | Maturity Date | |
| Negotiable certificates of deposit | | | | | |
| Community Bank of Nevada | N/A | N/A | <5% | 06/22/2009 | \$ 98,560 |
| Discover Bank | N/A | N/A | <5% | 06/29/2009 | 97,611 |
| Metropolitan National Bank | N/A | N/A | <5% | 06/18/2010 | 98,821 |
| United Bank & Trust | N/A | N/A | <5% | 06/21/2010 | 98,823 |
| Standard Bank | N/A | N/A | <5% | 01/26/2011 | 90,350 |
| M&I Bank | N/A | N/A | <5% | 12/20/2012 | 96,400 |
| Waypoint Bank | N/A | N/A | <5% | 07/08/2013 | 95,733 |
| Bancorp Bank | N/A | N/A | <5% | 06/30/2008 | 97,000 |
| Bank Baroda | N/A | N/A | <5% | 06/12/2008 | 97,000 |
| Cathay Bank | N/A | N/A | <5% | 01/31/2008 | 97,000 |
| Colonial Bank | N/A | N/A | <5% | 06/12/2008 | 97,000 |
| Columbus Bank & Trust | N/A | N/A | <5% | 03/07/2008 | 95,086 |
| E-Trade Bank | N/A | N/A | <5% | 11/28/2008 | 95,000 |
| Everbank | N/A | N/A | <5% | 03/07/2008 | 95,077 |
| Green Bank | N/A | N/A | <5% | 08/28/2008 | 96,000 |
| Imperial Bank | N/A | N/A | <5% | 06/12/2008 | 97,000 |
| NCB FSB | N/A | N/A | <5% | 06/30/2008 | 97,000 |
| Pacific Bank | N/A | N/A | <5% | 03/28/2008 | 97,000 |
| Premier Bank | N/A | N/A | <5% | 05/30/2008 | 97,000 |
| Team Bank | N/A | N/A | <5% | 11/28/2008 | 95,000 |
| Tomatobank | N/A | N/A | <5% | 04/28/2008 | 97,000 |
| Great Southern Bank | N/A | N/A | <5% | 10/30/2013 | 95,773 |
| New Southern Bank | N/A | N/A | <5% | 08/18/2009 | 95,027 |
| East-West Bank | N/A | N/A | <5% | 06/19/2008 | 97,000 |
| First Federal Bank FSB | N/A | N/A | <5% | 12/17/2008 | 95,000 |
| GMAC Bank | N/A | N/A | <5% | 06/19/2008 | 97,000 |
| Saehan Bank | N/A | N/A | <5% | 06/27/2008 | 97,000 |
| Sallie Mae Bank | N/A | N/A | <5% | 06/19/2008 | 97,000 |
| Sterling Savings Bank | N/A | N/A | <5% | 12/19/2008 | 95,319 |
| Interwest National Bank | N/A | N/A | <5% | 12/27/2012 | 95,252 |
| Ironstone Bank | N/A | N/A | <5% | 12/28/2012 | 95,252 |
| Parkway Bank & Trust | N/A | N/A | <5% | 12/28/2012 | 93,141 |
| Total negotiable certificates of deposit | | | | | \$ 3,078,225 |
| Total investments | | | | | \$ 37,897,138 |
| Deposits - primary government | | | | | 8,509,591 |
| Deposits - component units | | | | | 371,021 |
| Petty cash | | | | | 2,591 |
| Total Cash and Investments | | | | | \$ 46,780,341 |

N/A - not applicable

N/R - not rated

<5% - Concentration is less than 5% of investments

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2007, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

| | Total Receivables | Amounts Not Scheduled for Collection During the Subsequent Year |
|-------------------------------|----------------------|--|
| Governmental Activities | | |
| Taxes | \$ 667,687 | \$ - |
| Special assessments | 155,981 | - |
| Due from other governments | 2,166,579 | - |
| Accounts | 2,332,420 | - |
| Interest | 379,411 | - |
| Total Governmental Activities | \$ 5,702,078 | \$ - |

3. Minimum Future Rents Receivable

Cass County receives rental payments from the United States Postal Service (USPS) for office space in a building it purchased from the Pine River State Bank in Pine River, Minnesota. The USPS entered into a two-year lease with the bank effective July 1, 2006, to occupy 4,500 square feet of building space at an annual rental fee of \$37,125. Upon the transfer of ownership, Cass County assumed the lease agreement, and the terms of the lease remained unchanged.

Upon expiration of the lease on June 30, 2008, the USPS elected to renew the lease for a period of three years ending June 30, 2011. The annual rental fee remained unchanged.

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Minimum Future Rents Receivable (Continued)

Minimum future rents on the lease are:

| <u>Year Ending December 31</u> | | |
|------------------------------------|----|----------------|
| 2008 | \$ | 37,125 |
| 2009 | | 37,125 |
| 2010 | | 37,125 |
| 2011 | | <u>18,563</u> |
| Total | \$ | <u>129,938</u> |

On July 17, 2007, the Cass County Board of Commissioners renewed a five-year lease agreement with the United States Department of Agriculture, Natural Resources Conservation Services (NRCS) for the rental of 575 square feet of building space at the Cass County Courthouse for an annual fee of \$6,066 per year, effective January 1, 2008.

Upon expiration of the lease on December 31, 2012, the NRCS does not have the option to renew the lease. The lease may also be terminated by either party with a 60-day written notice.

Minimum future rents on the lease are:

| <u>Year Ending December 31</u> | | |
|------------------------------------|----|---------------|
| 2008 | \$ | 6,066 |
| 2009 | | 6,066 |
| 2010 | | 6,066 |
| 2011 | | 6,066 |
| 2012 | | <u>6,066</u> |
| Total | \$ | <u>30,330</u> |

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Minimum Future Rents Receivable (Continued)

In July 2007, SBA Towers II, LLC (SBA) assumed ownership of a communications tower from Midwest Real Estate Properties, LLC. The tower occupies 5,625 square feet of County land, including 14,440 square feet of easement. Upon assuming tower ownership, an existing land lease agreement with Cass County was transferred to SBA. SBA has agreed to pay the County a base rent of \$400 per month, plus an additional 15 percent of the collection revenue earned from each additional tenant utilizing tower antennas and equipment. SBA currently pays the County \$859 per month in rental fees under the existing lease agreement.

Upon expiration of the lease in September 2012, SBA has five additional renewal options for five-year terms each. For each renewal term, the monthly rent is increased by three percent.

Minimum future rents on the lease are:

| <u>Year Ending December 31</u> | |
|------------------------------------|------------------|
| 2008 | \$ 10,308 |
| 2009 | 10,308 |
| 2010 | 10,308 |
| 2011 | 10,308 |
| 2012 | <u>7,302</u> |
| Total | <u>\$ 48,534</u> |

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---------------------------------------|----------------------|--------------|------------|-------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 2,083,316 | \$ 7,365 | \$ - | \$ 2,090,681 |
| Construction in progress | 4,370,399 | 1,270,973 | 981,297 | 4,660,075 |
| Total capital assets not depreciated | \$ 6,453,715 | \$ 1,278,338 | \$ 981,297 | \$ 6,750,756 |
| Capital assets depreciated | | | | |
| Buildings | \$ 18,902,600 | \$ 1,285,370 | \$ 68,000 | \$ 20,119,970 |
| Machinery, furniture, and equipment | 4,919,074 | 298,025 | 331,705 | 4,885,394 |
| Infrastructure | 81,622,997 | 4,310,166 | - | 85,933,163 |
| Total capital assets depreciated | \$ 105,444,671 | \$ 5,893,561 | \$ 399,705 | \$ 110,938,527 |
| Less: accumulated depreciation for | | | | |
| Buildings | \$ 6,152,565 | \$ 401,215 | \$ 16,320 | \$ 6,537,460 |
| Machinery, furniture, and equipment | 3,070,214 | 415,148 | 331,705 | 3,153,657 |
| Infrastructure | 18,484,104 | 1,686,478 | 58,155 | 20,112,427 |
| Total accumulated depreciation | \$ 27,706,883 | \$ 2,502,841 | \$ 406,180 | \$ 29,803,544 |
| Total capital assets depreciated, net | \$ 77,737,788 | \$ 3,390,720 | \$ (6,475) | \$ 81,134,983 |
| Capital Assets, Net | \$ 84,191,503 | \$ 4,669,058 | \$ 974,822 | \$ 87,885,739 |

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

| | |
|---|--------------|
| Governmental Activities | |
| General government | \$ 62,752 |
| Public safety | 118,748 |
| Highways and streets, including depreciation of infrastructure assets | 2,063,843 |
| Health, human, and veterans services | 49,430 |
| Sanitation | 33,852 |
| Culture and recreation | 1,812 |
| Conservation of natural resources | 172,404 |
| Total Depreciation Expense - Governmental Activities | \$ 2,502,841 |

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2007, is as follows:

1. Due To/From Other Funds

| Receivable Fund | Payable Fund | Amount |
|-----------------------------------|--------------------------------------|------------|
| General | Forfeited Tax Sale | \$ 393,057 |
| | Health, Human, and Veterans Services | 40 |
| Total due to General Fund | | \$ 393,097 |
| Road and Bridge | General | \$ 2,602 |
| | Health, Human, and Veterans Services | 382 |
| | Forfeited Tax Sale | 191 |
| | Other governmental | 29,892 |
| Total due to Road and Bridge Fund | | \$ 33,067 |
| Other governmental funds | Forfeited Tax Sale | \$ 13,905 |
| Total Due To/From Other Funds | | \$ 440,069 |

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2007, consisted of the following:

| | | |
|--|------------|---------------------------------|
| Transfers to General Fund from | | |
| Health, Human, and Veterans Services Fund | \$ 40 | Process service charges |
| Forfeited Tax Sale Fund | 445,057 | Forfeited tax sale distribution |
| Total transfers to General Fund | \$ 445,097 | |
| Transfers to other governmental funds from | | |
| Forfeited Tax Sale Fund | 13,905 | Forfeited tax sale distribution |
| Total Interfund Transfers | \$ 459,002 | |

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Other Postemployment Benefits - Retirees

The County pays basic life insurance (\$10,000 coverage) and contributes towards the health insurance for qualified retired employees (employees who were employed by the County over ten years and retired on or after January 1, 1972) for life. The rates are based on the County's group policy rates and are financed on a pay-as-you-go basis. For employees hired on or after January 1, 1992, qualified retired employees (employees who were employed by the County over 20 years and are eligible for annuity or disability under a statutory Minnesota public employees retirement program) will receive a contribution towards health insurance coverage for the period from retirement until eligibility for Medicare coverage. No life insurance is provided for retirees hired on or after January 1, 1992.

As of year-end, the County has 98 eligible participants for health insurance and 107 eligible participants for life insurance. During 2007, the County expended \$727,157 for these benefits.

2. MSRS Health Care Savings Plan

County employees participate in a Health Care Savings Plan (HCSP) administered by the Minnesota State Retirement System (MSRS). The plan is authorized under the Laws of Minnesota 2001, ch. 352.98, and through an Internal Revenue Service (IRS) private letter ruling establishing the HCSP as a tax-exempt benefit as of July 29, 2002. The plan is open to any active public employees in Minnesota if they are covered under certain public service retirement plans.

Under the terms of the HCSP, employees are allowed to save money, tax-free, to use upon termination of employment to pay for eligible health care expenses. The IRS private letter ruling requires mandatory participation of all employees in each bargaining unit in order to gain tax-free benefits. Allowable amounts deposited into individual accounts must be negotiated by each individual bargaining unit and the employer. The plan must be written into the collective bargaining agreement or a Memo of Understanding. For those employees not covered by a bargaining unit, amounts to be deposited into individual accounts must be agreed to by the employer and included in a written personnel policy.

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

2. MSRS Health Care Savings Plan (Continued)

Under Cass County's plan, participating employees shall include all non-union personnel that are eligible for participation in the Cass County Cafeteria Plan, except elected officials and judicial appointments. Plan participation shall consist of employee payment to the Post Retirement Health Insurance Plan with severance benefits earned pursuant to these Personnel Rules and Policies as follows: (a) 100 percent of eligible sick leave severance upon termination and (b) 100 percent of eligible vacation severance upon termination.

Through a Memo of Understanding between Cass County and Minnesota Teamsters Public and Law Enforcement Employee's Union, Local No. 320, those unionized employees participation will consist of: (a) all of the employee's severance pay pursuant to Article 21.1 of the Labor Agreement will be paid into the Post Retirement Health Insurance Plan upon leave from employment with the County; and (b) on the last pay period of each calendar year, the employee's comp time accumulation over forty (40) hours will be paid into the Post Retirement Health Insurance Plan pursuant to Article 17.1 of the Labor Agreement.

3. Advance From Other Agencies

The Minnesota Department of Transportation (MnDOT) has advanced to the County a portion of future years' regular and municipal construction allotment funds for the purpose of financing current County state-aid projects. The balance of \$557,727 reported in the County's financial statements as Advance From Other Agencies represents funds received from MnDOT that will be recognized as revenue in the year the allotments normally would have accrued. As a result, the County anticipates receiving one-half of its normal construction and municipal allotments during years 2008 and 2009, respectively.

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

Governmental Activities

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|------------------------------|---------------------|---------------------|---------------------------|--------------------------------|
| Compensated absences | \$ 2,583,248 | \$ 1,490,498 | \$ 1,399,309 | \$ 2,674,437 | \$ 264,648 |
| South Country Health Alliance membership assessments | - | 1,345,826 | 348,880 | 996,946 | 332,315 |
| Total Long-Term Liabilities | <u>\$ 2,583,248</u> | <u>\$ 2,836,324</u> | <u>\$ 1,748,189</u> | <u>\$ 3,671,383</u> | <u>\$ 596,963</u> |

5. Lease Obligations

The County is committed under various operating leases for office space, parking, data processing, copiers, and office equipment, and radio towers and equipment. The following is a summary of the operating lease expense for 2007:

| <u>Type of Property</u> | <u>Amount</u> |
|--|------------------|
| Rental of office space and parking | \$ 3,000 |
| Data processing, copiers, and office equipment | 45,670 |
| Radio towers and equipment | 14,439 |
| Total Rental Expense | <u>\$ 63,109</u> |

Future minimum payments under operating leases, which are not reflected in these financial statements, consist of the following at December 31, 2007:

| <u>Year Ended</u> | <u>Amount</u> |
|-------------------------------------|-------------------|
| 2008 | \$ 68,060 |
| 2009 | 58,250 |
| 2010 | 54,134 |
| 2011 | 31,722 |
| 2012 | 9,385 |
| Total Future Minimum Lease Payments | <u>\$ 221,551</u> |

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Construction Commitments

Cass County has entered into an agreement with Crow Wing County to fund the construction of a Crow Wing County jail annex to meet its projected County inmate bed requirements. The annex is designed to house a maximum of 60 inmates from Cass County. Cass County is responsible for all costs associated with the design and construction of the annex. The estimated cost for the annex was \$2,000,000. Construction activities were substantially completed by December 31, 2007. A final payment was made to Crow Wing County in February 2008.

Crow Wing County assumed ownership of the annex. The County provides all related jail services for Cass County inmates. Cass County reimburses Crow Wing County for the cost of services provided at the current daily, contracted per diem rate in effect at that time. Any additional costs incurred in the provision of inmate health and welfare services will also be borne by Cass County. The housing portion of the agreement is effective for ten years commencing on the date the facility became available. Construction costs are being recorded as a prepaid item, which will be expensed over the ten-year period.

The contract commitment on this project at December 31, 2007, was:

| | <u>Estimated Cost</u> | <u>Spent-to-Date</u> | <u>Remaining Commitment</u> |
|-----------------------|-----------------------|----------------------|---------------------------------|
| Capital Projects Fund | <u>\$ 2,000,000</u> | <u>\$ 2,162,800</u> | <u>\$ 162,102</u> |

**CASS COUNTY
WALKER, MINNESOTA**

3. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Cass County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (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 as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

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 defined 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

**CASS COUNTY
WALKER, MINNESOTA**

3. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

For all Public Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent. Public Employees Police and Fire Fund members were required to contribute 7.80 percent of their annual covered salary in 2007. That rate increased to 8.60 percent in 2008. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**CASS COUNTY
WALKER, MINNESOTA**

3. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2007 and 2008:

| | 2007 | 2008 |
|---------------------------------------|--------|--------|
| Public Employees Retirement Fund | | |
| Basic Plan members | 11.78% | 11.78% |
| Coordinated Plan members | 6.25 | 6.50 |
| Public Employees Police and Fire Fund | 11.70 | 12.90 |
| Public Employees Correctional Fund | 8.75 | 8.75 |

The County's contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

| | 2007 | 2006 | 2005 |
|---------------------------------------|------------|------------|------------|
| Public Employees Retirement Fund | \$ 669,091 | \$ 610,287 | \$ 535,358 |
| Public Employees Police and Fire Fund | 221,764 | 183,073 | 156,223 |
| Public Employees Correctional Fund | 77,930 | 73,708 | 67,204 |

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

B. Defined Contribution Plan

Two eligible elected officials of the County are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA 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.

**CASS COUNTY
WALKER, MINNESOTA**

3. Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of the employer contributions and 0.25 percent of the assets in each member account annually.

The contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2007, were:

| | <u>Employee</u> | <u>Employer</u> |
|-------------------------------|-----------------|-----------------|
| Contribution amount | \$ 2,908 | \$ 2,908 |
| Percentage of covered payroll | 5% | 5% |

Required contribution rates were 5.00 percent.

4. 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. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT) to cover both workers' compensation and property and casualty liabilities. The County self-insures for employee medical and short-term disability coverage. 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.

**CASS COUNTY
WALKER, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$400,000 per claim in 2007 and \$410,000 per claim in 2008. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

Employee medical and short-term disability insurance coverage is accounted for in the General Fund of the County. Costs include medical coverage for employees, dependents, and retirees, and short-term disability coverage for employees. Costs also include charges for claims management by a third-party administrator. Premiums are based on an actuarial study by the third-party administrator and include a provision for expected future catastrophic losses; the premiums also include a provision for administrative costs and stop-loss insurance. The County carries individual specific stop-loss insurance for claims that exceed \$150,000 per year per employee contract, or 125 percent, of the annual premium base. All County funds with personnel are charged for the County's share of costs for providing insurance coverage. Employees contribute a share of coverage costs through payroll deductions and retirees are paid for, in part, by County funds and by the retirees themselves. The liability at year-end is based on subsequent claims, and it includes a reasonable provision for incurred but not reported claims. A claims liability is included in the General Fund accounts payable at year-end.

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

| | Year Ended December 31 | |
|---|------------------------|-------------|
| | 2007 | 2006 |
| Unpaid claims, beginning of fiscal year | \$ 716,403 | \$ 178,139 |
| Incurred claims (including IBNRs) | 2,808,956 | 3,681,438 |
| Claims payments | (3,342,824) | (3,143,174) |
| Unpaid Claims, End of Fiscal Year | \$ 182,535 | \$ 716,403 |

**CASS COUNTY
WALKER, MINNESOTA**

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

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. Tax-Forfeited Land

The County manages approximately 253,495 acres of state-owned tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to cities, towns, and school districts within the County according to state statute.

D. Joint Ventures

Northwestern Minnesota Juvenile Center

The Northwestern Minnesota Juvenile Center was established by Beltrami, Cass, Clearwater, Hubbard, Kittson, Lake of the Woods, Pennington, and Roseau Counties in 1971 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, for the purpose of providing rehabilitation and other services to juveniles under the jurisdiction of the court system. The governing board is composed of not less than 7 or more than 15 members, with at least 1 member appointed by each participating county, as provided in the Center's bylaws. At present, there are 13 directors: Beltrami, Cass, Hubbard, Pennington, and Roseau have 2 directors each; the other member counties have 1 director each.

**CASS COUNTY
WALKER, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northwestern Minnesota Juvenile Center (Continued)

In the event of dissolution of the Center, the unexpended balance of monies and assets held by the Center will be divided among the member counties in the same proportion as their respective financial responsibilities.

Financing is provided by state and federal grants, charges for services, and appropriations from member counties. No payments were required from Cass County during 2007. Beltrami County, in an agent capacity, reports the cash transactions of the Center as an agency fund on its financial statements. Complete financial information can be obtained from:

Beltrami County Auditor's Office
Beltrami County Courthouse
P. O. Box 247
Bemidji, Minnesota 56619

Minnesota Counties Information Systems (MCIS)

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

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

A summary of the financial information of MCIS' funds for the fiscal year ended December 31, 2006 (the most recent available), was:

| | | |
|-----------------------------------|----|-----------|
| Total Assets | \$ | 785,330 |
| Total Liabilities | | 202,814 |
| Total Net Assets | | 582,516 |
| Total Revenues | | 2,387,269 |
| Total Expenses | | 2,195,143 |
| Increase (Decrease) in Net Assets | | 192,126 |

**CASS COUNTY
WALKER, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Minnesota Counties Information Systems (MCIS) (Continued)

Separate financial information can be obtained from:

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

Mississippi Headwaters Board

The Mississippi Headwaters Board was established on February 22, 1980, by Aitkin, Beltrami, Cass, Clearwater, Crow Wing, Hubbard, Itasca, and Morrison Counties, pursuant to the provisions of Minn. Stat. § 471.59. The purpose of the Board is to prepare, adopt, and implement a comprehensive land use plan designed to protect and enhance the Mississippi River and related shoreland areas within the counties.

The Mississippi Headwaters Board consists of eight members, one appointed from each participating county. Cass County maintains the accounting records of the Board. Funding is obtained through federal, state, local, and private sources.

Complete financial information can be obtained from:

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

Northwest Minnesota Household Hazardous Waste Management Group

Beltrami, Cass, Clearwater, Kittson, Lake of the Woods, Marshall, Pennington, Polk, Red Lake, and Roseau Counties entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of cooperatively managing, handling, and transporting household hazardous waste, providing public education on safe waste management, and providing for the disposition of nonrecyclable household hazardous waste.

**CASS COUNTY
WALKER, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northwest Minnesota Household Hazardous Waste Management Group (Continued)

The governing body of the Waste Management Group is composed of one County Commissioner from each of the member counties. Responsibility for budgeted expenditures is shared, with 50 percent divided on a population-ratio basis. In the event of dissolution of the Waste Management Group, the net assets shall be divided among the member counties in the same proportion as their respective financial responsibilities.

The Waste Management Group has no long-term debt. Financing is provided by appropriations from the member counties when needed. Cass County paid an assessment of \$8,066 to the Waste Management Group in 2007. Clearwater County, in an agent capacity, reports the cash transactions of the Waste Management Group as an agency fund on its financial statements.

Separate financial information can be obtained from:

Waste Management Group
P. O. Box 186
Bagley, Minnesota 56621

Paul Bunyan Task Force

The Paul Bunyan Task Force was established July 16, 1992, under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Beltrami, Clearwater, Hubbard, Lake of the Woods, Pennington, and Red Lake Counties; the Leech Lake Band of Ojibwe; and the Cities of Bemidji and Thief River Falls. On August 1, 2000, Cass County joined this organization. The purpose of the Task Force is to assist member organizations in the investigation and prosecution of persons in violation of Minnesota statutes.

Control of the Paul Bunyan Task Force is established by a majority vote represented with one vote from each member organization.

In the event of dissolution of the Paul Bunyan Task Force, the net assets shall be liquidated to the member organizations based upon the percentage of population of all member counties and cities.

**CASS COUNTY
WALKER, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Paul Bunyan Task Force (Continued)

The Paul Bunyan Task Force has no long-term debt. Financing is provided by the profits from forfeitures and seizures pursuant to Minn. Stat. § 609.531. Cass County provided no cash contributions to the Paul Bunyan Task Force in 2007 but paid for the salary and benefits of one officer of the Paul Bunyan Task Force, which amounted to \$36,984. The City of Bemidji, in an agent capacity, reports the cash transactions of the Paul Bunyan Task Force on its financial statements. Complete financial information can be obtained from:

City of Bemidji, Administrative Offices
City Hall
317 - 4th Street N.W.
Bemidji, Minnesota 56601

As of May 1, 2007, Cass County officially withdrew from membership in the Paul Bunyan Task Force.

Central Minnesota Emergency Medical Services Region

The Central Minnesota Emergency Medical Services Region was established in 2001, under Minn. Stat. § 471.59, to improve access, delivery, and effectiveness of the emergency medical services system; promote systematic and cost-effective delivery of services; and identify and address system needs within the member counties. The member counties are Benton, Cass, Chisago, Crow Wing, Isanti, Kanabec, Mille Lacs, Morrison, Pine, Sherburne, Stearns, Todd, Wadena, and Wright. The Region established a Board comprising one Commissioner from each member county. The Region's Board has financial responsibility, and Stearns County is the fiscal agent.

Complete financial information can be obtained from:

Central Minnesota Emergency Medical Services Region
Administration Center
705 Courthouse Square
St. Cloud, Minnesota 56303-4701

**CASS COUNTY
WALKER, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Rural Fire Association

Cass County, in conjunction with Unorganized Township Five; the Leech Lake Band of Ojibwe; the City of Cass Lake; and the Towns of Pike Bay, Wilkinson, Ottertail Peninsula, Farden, Ten Lakes, and Brook Lake, entered into a joint powers agreement November 22, 2004, pursuant to Minn. Stat. § 471.59, for the purpose of providing fire protection services to the residents of the districts. The agreement provides for the joint ownership, operation, and control of firefighting equipment used in providing protective services.

In the event of the withdrawal by any member, their investment shall be forfeited, except by a three-quarters vote of the entire Joint Powers Board. Any such investment may not be withdrawn until the end of the calendar year of withdrawal. Cass County paid the Cass Lake Volunteer Rural Fire Association \$6,100 in 2007.

South Country Health Alliance

The South Country Health Alliance (SCHA) was created by a joint powers agreement between Brown, Dodge, Freeborn, Goodhue, Kanabec, Mower, Sibley, Steele, Wabasha, and Waseca Counties on July 24, 1998, under Minn. Stat. § 471.59. Mower County has since withdrawn. In 2007, Cass, Crow Wing, Morrison, Todd, and Wadena Counties became members. The agreement was in accordance with Minn. Stat. § 256B.692, which allows the formation of a Board of Directors to operate, control, and manage all matters concerning the participating counties' health care functions, referred to as county-based purchasing.

The purpose of the SCHA is to improve the social and health outcomes of its clients and all citizens of its member counties by better coordinating social service, public health and medical services, and promoting the achievement of public health goals. The SCHA is authorized to provide prepaid comprehensive health maintenance services to persons enrolled under Medicaid and General Assistance Medical Care in each of the member counties.

**CASS COUNTY
WALKER, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

South Country Health Alliance (Continued)

Each member county has an explicit and measurable right to its share of the total capital surplus of the SCHA. Gains and losses are allocated annually to all members based on the percentage of their utilization. The County's equity interest in SCHA at December 31, 2007, was \$606,619; Cass County's share of SCHA's net loss was \$739,207.

The equity interest is reported as an investment in joint venture on the government-wide statement of net assets. Changes in equity are included in the government-wide statement of activities as health expenses.

Complete financial statements for the SCHA may be obtained from its fiscal agent at 630 Florence Avenue, P. O. Box 890, Owatonna, Minnesota 55060-0890.

E. Jointly-Governed Organization

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

Cass County/Leech Lake Reservation Children's Initiative Collaborative

The Cass County/Leech Lake Reservation Children's Initiative Collaborative was established to create opportunities to enhance family strengths and support through service coordination and access to informal communication. Cass County has no operational or financial control over the Collaborative.

F. Subsequent Events

South Country Health Alliance

The joint venture, SCHA, has recommended in 2008 a capital call from the County of \$879,092 payable in two installments. The first installment of \$439,546 was paid on May 27, 2008, by the County, and the second half installment of \$439,546 is due no later than November 25, 2008.

**CASS COUNTY
WALKER, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

F. Subsequent Events (Continued)

Ah-Gwah-Ching Land Sale

On June 3, 2008, the Cass County Board of Commissioners approved acceptance of the deed from the State of Minnesota for a parcel of land formerly occupied by the Ah-Gwah-Ching (AGC) Treatment Center. A new courthouse campus and health care center are to be constructed on the property. Under the 2005 Laws of Minnesota ch. 20, Art. I, Sec. 46, subd. 3, the Commissioner of Administration is authorized to convey to Cass County for no consideration its interest in the AGC property. The terms of the agreement call for the County to acquire the entire site, except for a 55-acre tract which will be transferred to the Minnesota Department of Natural Resources. A portion of the property acquired by the County will be used to develop an integrated health care campus. Benedictine Health Systems has contracted with the County to oversee the feasibility and development of the health care campus.

Demolition and site clean-up is being funded through a \$1,890,000 grant received from the Minnesota Department of Employment and Economic Development and a grant of \$3,321,805 through the Minnesota Department of Administration. Site demolition activities commenced during August 2008.

5. Component Unit Disclosures

A. Summary of Significant Accounting Policies

In addition to those identified in Note 1, the County's discretely presented component units have the following significant accounting policies.

Reporting Entities

The Cass County Housing and Redevelopment Authority (HRA) is governed by a five-member Board of Directors who are appointed by the County Board.

The Pine River Area Sanitary District (District) is governed by a five-member Board of Commissioners appointed by the County Board.

**CASS COUNTY
WALKER, MINNESOTA**

5. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

The HRA's and the District's financial statements are presented under the accrual basis of accounting. Enterprise funds are used to account for component unit activities. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

B. Detailed Notes

1. Assets

a. Deposits and Investments

(1) Deposits

Cash balances of the HRA are combined (pooled) and deposited in depositories authorized by Minnesota state statutes. The HRA's cash balances are classified as either cash or restricted cash. Restricted cash represents funds set aside to be used in the future for capital replacements and repairs and for the accumulation of capital recovery charges to be used to make principal and interest payments on outstanding long-term debt. Other amounts are restricted for tenant security deposits. Interest earned on cash balances is allocated to cash and restricted cash balances.

The District's cash balances are combined (pooled) and deposited in depositories authorized by Minnesota statutes. The District's cash balances are classified as either cash or restricted cash. Restricted cash represents funds set aside to be used in the future for plant and equipment replacements and for the accumulation of capital recovery charges to be used to make principal and interest payments on outstanding long-term debt. Interest earned on cash balances is allocated to cash and restricted cash balances.

**CASS COUNTY
WALKER, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes

1. Assets

a. Deposits and Investments

(1) Deposits (Continued)

The HRA and the District component unit's total cash and investments are reported as follows:

| | Cass County HRA | Pine River Area Sanitary District |
|---|--------------------|---|
| Government-wide statement of net assets | | |
| Cash | \$ 78,652 | \$ 19,743 |
| Petty cash | - | 300 |
| Restricted assets | | |
| Cash | - | 123,586 |
| Investments | 148,740 | - |
| Total Cash and Investments | \$ 227,392 | \$ 143,629 |

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

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

**CASS COUNTY
WALKER, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes

1. Assets

a. Deposits and Investments

(1) Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the deposits of the HRA or the District may not be returned. Neither the HRA nor the District has a deposit policy for custodial credit risk. As of December 31, 2007, the HRA and the District were not exposed to any custodial credit risk.

(2) Investments

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

- 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;
- mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- 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;
- bankers’ acceptances of United States banks;

**CASS COUNTY
WALKER, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes

1. Assets

a. Deposits and Investments

(2) Investments (Continued)

- 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
- with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

As of and during the year ended December 31, 2007, neither the HRA nor the District owned any investments that required disclosure regarding interest rate risk, credit risk, custodial credit risk, or concentration of credit risk.

b. Receivables

Receivables as of December 31, 2007, for each discretely presented component unit, including any applicable allowances for uncollectible accounts, are as follows:

| | Cass County HRA | Pine River Area Sanitary District | Total Receivables | Amounts Not Scheduled for Collection During the Year |
|------------------------------|--------------------|---|----------------------|---|
| Special assessments | \$ - | \$ 10,996 | \$ 10,996 | \$ - |
| Accounts | 20,777 | 19,209 | 39,986 | - |
| Note | 155,225 | - | 155,225 | 155,225 |
| Total Component Units | \$ 176,002 | \$ 30,205 | \$ 206,207 | \$ 155,225 |

**CASS COUNTY
WALKER, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes

1. Assets (Continued)

c. Capital Assets

Component unit capital asset activity for the year ended December 31, 2007,
was as follows:

| | <u>Beginning Balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Ending Balance</u> |
|---|------------------------------|------------------|------------------|---------------------------|
| Capital assets not depreciated | | | | |
| Land | | | | |
| Cass County HRA | \$ 25,753 | \$ - | \$ - | \$ 25,753 |
| Pine River Area Sanitary District | 10,000 | - | - | 10,000 |
| Total capital assets not depreciated | <u>\$ 35,753</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 35,753</u> |
| Capital assets depreciated | | | | |
| Buildings and improvements | | | | |
| Cass County HRA | \$ 769,270 | \$ 16,800 | \$ - | \$ 786,070 |
| Pine River Area Sanitary District | 2,284,874 | 51,553 | - | 2,336,427 |
| Total buildings and improvements | <u>\$ 3,054,144</u> | <u>\$ 68,353</u> | <u>\$ -</u> | <u>\$ 3,122,497</u> |
| Water treatment facilities | | | | |
| Pine River Area Sanitary District | \$ 4,038,297 | \$ - | \$ - | \$ 4,038,297 |
| Machinery, furniture, and equipment | | | | |
| Cass County HRA | \$ 119,121 | \$ 1,147 | \$ 11,552 | \$ 108,716 |
| Pine River Area Sanitary District | 88,502 | 26,696 | 8,651 | 106,547 |
| Total machinery, furniture, and equipment | <u>\$ 207,623</u> | <u>\$ 27,843</u> | <u>\$ 20,203</u> | <u>\$ 215,263</u> |
| Total capital assets depreciated | <u>\$ 7,300,064</u> | <u>\$ 96,196</u> | <u>\$ 20,203</u> | <u>\$ 7,376,057</u> |
| Less: accumulated depreciation for | | | | |
| Buildings and improvements | | | | |
| Cass County HRA | \$ 347,820 | \$ 23,585 | \$ - | \$ 371,405 |
| Pine River Area Sanitary District | 2,267,549 | 5,303 | - | 2,272,852 |
| Total buildings and improvements | <u>\$ 2,615,369</u> | <u>\$ 28,888</u> | <u>\$ -</u> | <u>\$ 2,644,257</u> |
| Water treatment facilities | | | | |
| Pine River Area Sanitary District | \$ 1,553,060 | \$ 141,517 | \$ - | \$ 1,694,577 |
| Machinery, furniture, and equipment | | | | |
| Cass County HRA | \$ 73,990 | \$ 8,970 | \$ 2,657 | \$ 80,303 |
| Pine River Area Sanitary District | 85,522 | 1,936 | 8,651 | 78,807 |
| Total machinery, furniture, and equipment | <u>\$ 159,512</u> | <u>\$ 10,906</u> | <u>\$ 11,308</u> | <u>\$ 159,110</u> |

**CASS COUNTY
WALKER, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes

1. Assets

c. Capital Assets (Continued)

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---------------------------------------|----------------------|--------------------|-----------------|---------------------|
| Total accumulated depreciation | \$ 4,327,941 | \$ 181,311 | \$ 11,308 | \$ 4,497,944 |
| Total capital assets depreciated, net | \$ 2,972,123 | \$ (85,115) | \$ 8,895 | \$ 2,878,113 |
| Total Capital Assets, Net | <u>\$ 3,007,876</u> | <u>\$ (85,115)</u> | <u>\$ 8,895</u> | <u>\$ 2,913,866</u> |

Depreciation expense was charged to functions/programs of the discretely presented component units as follows:

| | |
|-----------------------------------|-------------------|
| Cass County HRA | \$ 32,555 |
| Pine River Area Sanitary District | <u>148,756</u> |
| Total Depreciation Expense | <u>\$ 181,311</u> |

2. Liabilities

The HRA entered into a loan agreement with the Minnesota Housing Finance Agency in connection with the publicly-owned transitional housing program. The loans are non-interest bearing and are due upon sale of the development property and other conditions of the program. Upon maturity, the loans are canceled, and loan repayments may be used for the revolving loan. There were no current changes to these loans.

| Loan Date | Term | Balance December 31, 2007 |
|-------------------|----------|---------------------------------|
| February 25, 1992 | 20 years | \$ 34,205 |
| July 30, 1993 | 20 years | <u>43,128</u> |
| Total | | <u>\$ 77,333</u> |

**CASS COUNTY
WALKER, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes

2. Liabilities (Continued)

Long-Term Debt

On April 18, 1997, the District entered into a project loan and general obligation revenue bond purchase agreement with the Minnesota Public Facilities Authority (PFA) and Cass County for improvements and upgrading of the District's wastewater system.

On November 13, 2007, the District purchased a truck. The loan requires 60 monthly installments of \$358, including interest at 6.19 percent.

Long-term debt outstanding at December 31, 2007, for the Pine River Area Sanitary District consists of the following:

| Type of Indebtedness | Final Maturity | Installment Amount | Interest Rate (%) | Original Issue Amount | Remaining Commitment |
|-----------------------------------|----------------|--------------------|-------------------|-----------------------|----------------------|
| 1997A PFA G.O. Sewer Revenue Note | 2019 | \$ 71,781 | 1.13 | \$ 1,366,190 | \$ 896,343 |
| 1997B PFA G.O. Sewer Revenue Note | 2020 | 94,190 | - | 1,883,810 | 1,177,384 |
| Note payable to bank | 2012 | 358 | 6.19 | 18,439 | 18,439 |
| Total | | | | | <u>\$ 2,092,166</u> |

Debt Service Requirements

Public Facilities Authority Revenue Note debt service requirements to maturity for the District are as follows:

| Year Ending December 31 | PFA Sewer Revenue Note | Bank Note |
|-------------------------|------------------------|------------------|
| 2008 | \$ 177,527 | \$ 4,297 |
| 2009 | 177,527 | 4,297 |
| 2010 | 177,527 | 4,297 |
| 2011 | 177,527 | 4,297 |
| 2012 | 177,527 | 4,297 |
| 2013 - 2017 | 887,637 | - |
| 2018 - 2020 | 360,485 | - |
| Total | \$ 2,135,757 | \$ 21,485 |
| Less: interest | (62,030) | (3,046) |
| Total | <u>\$ 2,073,727</u> | <u>\$ 18,439</u> |

**CASS COUNTY
WALKER, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes

2. Liabilities

Debt Service Requirements (Continued)

The repayment of the 1997B PFA G.O. Sewer Revenue Note shall be forgiven, as the payments become due, upon: (1) a determination by the authority that Cass County and the Pine River Area Sanitary District are in full compliance with the Minnesota Pollution Control Agency's project performance requirements in Minnesota Rules, part 7077.0288, as amended or supplemented; and (2) the District certifies each year that a wastewater replacement fund is being maintained and funded equal to \$0.10 per 1,000 gallons of wastewater flow each year. The Minnesota Pollution Control Agency's Commissioner has provided written notification to the PFA of the District's satisfactory performance pursuant to Minnesota Rules, part 7077.290.

Further, under the agreement, Cass County and the District are required to evidence the loan and supplemental assistance under general obligation debt. As the debt payments are forgiven as they become due, they will be recorded as capital contributions in the financial statements.

Changes in Long-Term Liabilities

The following is a summary of the District's long-term debt transactions for the year ended December 31, 2007.

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Pine River Area Sanitary District PFA G.O. Sewer Revenue Notes Payable | \$ 2,240,507 | \$ - | \$ 166,780 | \$ 2,073,727 | \$ 166,572 |
| Notes payable to bank | - | 18,439 | - | 18,439 | 4,297 |
| Total Long-Term Liabilities | \$ 2,240,507 | \$ 18,439 | \$ 166,780 | \$ 2,092,166 | \$ 170,869 |

**CASS COUNTY
WALKER, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes

2. Liabilities (Continued)

Compensated Absences

The following is a summary of the HRA's compensated absences balances as of December 31, 2007:

| | <u>December 31, 2006</u> | <u>Increase (Decrease)</u> | <u>December 31, 2007</u> |
|------------------------------|------------------------------|--------------------------------|------------------------------|
| Accrued compensated absences | \$ 606 | \$ 1,306 | \$ 1,912 |

3. Risk Management

The HRA is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; workers' compensation claims; and natural disasters. Property and casualty and workers' compensation liabilities are insured. The HRA retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial.

The District has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT). The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for Minnesota cities. The agreement for the formation of the LMCIT provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The District has determined that it is not possible to estimate the amount of such additional assessments; however, it is not expected to be material to the financial statements taken as a whole.

REQUIRED SUPPLEMENTARY INFORMATION

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**CASS COUNTY
WALKER, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|----------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 8,001,362 | \$ 8,001,362 | \$ 7,564,043 | \$ (437,319) |
| Special assessments | 1,620,000 | 1,620,000 | 1,671,436 | 51,436 |
| Licenses and permits | 77,000 | 77,000 | 87,985 | 10,985 |
| Intergovernmental | 2,250,517 | 2,250,517 | 3,186,180 | 935,663 |
| Charges for services | 2,493,635 | 2,493,635 | 3,170,350 | 676,715 |
| Fines and forfeits | 500 | 500 | 9,568 | 9,068 |
| Gifts and contributions | - | - | 8 | 8 |
| Investment earnings | 950,000 | 950,000 | 2,498,656 | 1,548,656 |
| Miscellaneous | 252,303 | 252,303 | 479,289 | 226,986 |
| Total Revenues | \$ 15,645,317 | \$ 15,645,317 | \$ 18,667,515 | \$ 3,022,198 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Commissioners | \$ 265,887 | \$ 446,287 | \$ 439,701 | \$ 6,586 |
| Courts | 83,217 | 117,217 | 114,822 | 2,395 |
| Law library | 45,000 | 45,000 | 30,801 | 14,199 |
| County administration | 195,995 | 195,995 | 189,426 | 6,569 |
| County auditor | 1,100,750 | 1,134,750 | 1,136,651 | (1,901) |
| County assessor | 773,121 | 773,121 | 748,445 | 24,676 |
| Attorney | 855,562 | 855,562 | 824,308 | 31,254 |
| Recorder | 469,134 | 469,134 | 432,273 | 36,861 |
| Planning and zoning | 549,287 | 549,287 | 547,965 | 1,322 |
| Buildings and plant | 560,002 | 609,102 | 600,556 | 8,546 |
| MIS | 524,633 | 524,633 | 502,593 | 22,040 |
| HHVS cost plan and reimbursement | 6,000 | 6,000 | 5,100 | 900 |
| Total general government | \$ 5,428,588 | \$ 5,726,088 | \$ 5,572,641 | \$ 153,447 |
| Public safety | | | | |
| Sheriff | \$ 4,009,586 | \$ 4,009,586 | \$ 3,931,472 | \$ 78,114 |
| Boat and water safety | 427,800 | 427,800 | 403,806 | 23,994 |
| Emergency services | 21,800 | 29,800 | 29,076 | 724 |
| Coroner | 90,000 | 100,000 | 97,592 | 2,408 |
| Law enforcement center | 2,253,036 | 2,253,036 | 2,195,435 | 57,601 |
| Sentence to serve | 75,907 | 97,907 | 94,843 | 3,064 |
| Probation and parole | 551,214 | 551,214 | 549,814 | 1,400 |
| Longville ambulance subordinate service district | 400,000 | 400,000 | 312,870 | 87,130 |
| Total public safety | \$ 7,829,343 | \$ 7,869,343 | \$ 7,614,908 | \$ 254,435 |

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

**CASS COUNTY
WALKER, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|----------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Expenditures | | | | |
| Current (Continued) | | | | |
| Sanitation | | | | |
| Solid waste | \$ 2,490,401 | \$ 2,490,401 | \$ 2,295,938 | \$ 194,463 |
| Culture and recreation | | | | |
| Parks | \$ 15,000 | \$ 15,000 | \$ 15,000 | \$ - |
| Conservation of natural resources | | | | |
| Cooperative extension | \$ 38,910 | \$ 38,910 | \$ 38,788 | \$ 122 |
| Mississippi Headwaters Board | 1,500 | 1,500 | 1,500 | - |
| Soil and water conservation | 5,750 | 5,750 | 4,182 | 1,568 |
| Environmental services | 109,363 | 149,363 | 144,645 | 4,718 |
| Total conservation of natural resources | \$ 155,523 | \$ 195,523 | \$ 189,115 | \$ 6,408 |
| Economic development | | | | |
| Administration | \$ 35,000 | \$ 35,000 | \$ 35,000 | \$ - |
| Total Expenditures | \$ 15,953,855 | \$ 16,331,355 | \$ 15,722,602 | \$ 608,753 |
| Excess of Revenues Over (Under) Expenditures | \$ (308,538) | \$ (686,038) | \$ 2,944,913 | \$ 3,630,951 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 402,000 | 402,000 | 445,097 | 43,097 |
| Change in Fund Balance | \$ 93,462 | \$ (284,038) | \$ 3,390,010 | \$ 3,674,048 |
| Fund Balance - January 1 | 19,292,552 | 19,292,552 | 19,292,552 | - |
| Fund Balance - December 31 | \$ 19,386,014 | \$ 19,008,514 | \$ 22,682,562 | \$ 3,674,048 |

**CASS COUNTY
WALKER, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 3,735,961 | \$ 3,735,961 | \$ 3,480,116 | \$ (255,845) |
| Intergovernmental | 5,339,351 | 5,339,351 | 7,088,835 | 1,749,484 |
| Charges for services | 444,000 | 444,000 | 462,804 | 18,804 |
| Miscellaneous | 2,000 | 2,000 | 105,625 | 103,625 |
| Total Revenues | \$ 9,521,312 | \$ 9,521,312 | \$ 11,137,380 | \$ 1,616,068 |
| Expenditures | | | | |
| Current | | | | |
| Highways and streets | | | | |
| Administration | \$ 695,498 | \$ 695,498 | \$ 655,314 | \$ 40,184 |
| Maintenance | 3,115,333 | 3,115,333 | 1,600,131 | 1,515,202 |
| Construction | 4,030,000 | 4,030,000 | 4,717,560 | (687,560) |
| Equipment maintenance and shop | 1,476,756 | 1,476,756 | 1,149,908 | 326,848 |
| Other | 203,725 | 203,725 | 161,961 | 41,764 |
| Total Expenditures | \$ 9,521,312 | \$ 9,521,312 | \$ 8,284,874 | \$ 1,236,438 |
| Excess of Revenues Over (Under) Expenditures | \$ - | \$ - | \$ 2,852,506 | \$ 2,852,506 |
| Fund Balance - January 1 | 2,129,453 | 2,129,453 | 2,129,453 | - |
| Increase (decrease) in reserved for inventories | - | - | 84,986 | 84,986 |
| Fund Balance - December 31 | \$ 2,129,453 | \$ 2,129,453 | \$ 5,066,945 | \$ 2,937,492 |

**CASS COUNTY
WALKER, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HEALTH, HUMAN, AND VETERANS SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|----------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 5,613,126 | \$ 5,613,126 | \$ 5,233,458 | \$ (379,668) |
| Licenses and permits | 11,000 | 11,000 | 9,575 | (1,425) |
| Intergovernmental | 6,152,759 | 6,152,759 | 6,312,514 | 159,755 |
| Charges for services | 1,003,435 | 1,003,435 | 1,402,174 | 398,739 |
| Gifts and contributions | 1,800 | 1,800 | 462 | (1,338) |
| Miscellaneous | 280,975 | 280,975 | 552,868 | 271,893 |
| Total Revenues | \$ 13,063,095 | \$ 13,063,095 | \$ 13,511,051 | \$ 447,956 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Veterans service officer | \$ 172,205 | \$ 172,205 | \$ 172,022 | \$ 183 |
| Human services | | | | |
| Income maintenance | \$ 2,532,060 | \$ 2,532,060 | \$ 2,607,412 | \$ (75,352) |
| Social services | 7,793,505 | 7,793,505 | 6,820,638 | 972,867 |
| Children's initiative | 285,000 | 285,000 | 258,306 | 26,694 |
| Total human services | \$ 10,610,565 | \$ 10,610,565 | \$ 9,686,356 | \$ 924,209 |
| Health | | | | |
| Public health | \$ 2,294,560 | \$ 2,294,560 | \$ 2,195,301 | \$ 99,259 |
| South Country Health Alliance | - | - | 972,641 | (972,641) |
| Total health | \$ 2,294,560 | \$ 2,294,560 | \$ 3,167,942 | \$ (873,382) |
| Total Expenditures | \$ 13,077,330 | \$ 13,077,330 | \$ 13,026,320 | \$ 51,010 |
| Excess of Revenues Over (Under) Expenditures | \$ (14,235) | \$ (14,235) | \$ 484,731 | \$ 498,966 |
| Other Financing Sources (Uses) | | | | |
| Transfers out | - | - | (40) | (40) |
| Change in Fund Balance | \$ (14,235) | \$ (14,235) | \$ 484,691 | \$ 498,926 |
| Fund Balance - January 1 | 6,086,108 | 6,086,108 | 6,086,108 | - |
| Fund Balance - December 31 | \$ 6,071,873 | \$ 6,071,873 | \$ 6,570,799 | \$ 498,926 |

**CASS COUNTY
WALKER, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SALE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Intergovernmental | \$ 261,000 | \$ 261,000 | \$ 354,412 | \$ 93,412 |
| Miscellaneous | 2,491,000 | 2,491,000 | 2,377,058 | (113,942) |
| Total Revenues | \$ 2,752,000 | \$ 2,752,000 | \$ 2,731,470 | \$ (20,530) |
| Expenditures | | | | |
| Current | | | | |
| Conservation of natural resources | | | | |
| Reforestation | \$ 300,000 | \$ 300,000 | \$ 355,560 | \$ (55,560) |
| In-lieu | 146,000 | 146,000 | 84,540 | 61,460 |
| Roads | 30,000 | 30,000 | 11,290 | 18,710 |
| Trails | 181,000 | 311,000 | 298,901 | 12,099 |
| Land commissioner | 1,029,263 | 1,239,263 | 1,232,047 | 7,216 |
| Total Expenditures | \$ 1,686,263 | \$ 2,026,263 | \$ 1,982,338 | \$ 43,925 |
| Excess of Revenues Over (Under) Expenditures | \$ 1,065,737 | \$ 725,737 | \$ 749,132 | \$ 23,395 |
| Other Financing Sources (Uses) | | | | |
| Transfers out | (1,081,737) | (1,081,737) | (458,962) | 622,775 |
| Change in Fund Balance | \$ (16,000) | \$ (356,000) | \$ 290,170 | \$ 646,170 |
| Fund Balance - January 1 | 3,040,938 | 3,040,938 | 3,040,938 | - |
| Fund Balance - December 31 | \$ 3,024,938 | \$ 2,684,938 | \$ 3,331,108 | \$ 646,170 |

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**CASS COUNTY
WALKER, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2007**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except for the Shingobee Special Revenue Fund. The Capital Projects Fund adopts project-length budgets. All annual appropriations lapse at fiscal year-end.

Cass County utilizes a Budget Committee comprised of one appointed citizen from each commissioner district and two County Commissioners to review departmental requests and make recommendations to the County Board on budgetary and financial matters. Budget Committee staff includes the County Administrator, Chief Financial Officer, Assessor, Auditor/Treasurer, and Chief Deputy Treasurer.

By July of each year, all departments submit requests for appropriations to the County Auditor/Treasurer. The Budget Committee reviews and amends the departmental requests in order to develop a proposed budget and preliminary property tax levy. Before September 15, the proposed budget, along with a preliminary tax levy, is presented to the County Board for review. The County Board must approve a preliminary tax levy on or before September 15. A final tax levy and budget is adopted by the Board and certified to the Auditor/Treasurer on or before five business days after December 20.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level, except for the General Fund, which is at the department level.

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2007, none of the major funds had expenditures that exceeded appropriations.

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SUPPLEMENTARY INFORMATION

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**CASS COUNTY
WALKER, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

The Unorganized Town Special Revenue Fund is used to account for all funds to be used for construction and maintenance of highways and roads and to account for fire protection and emergency services provided to residents of unorganized townships.

The Shingobee Special Revenue Fund is used to account for the provision of water and sewer services to residents of Shingobee Township and is a blended component unit of the County.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of principal, interest, and the related costs of long-term debt.

The Capital Projects Fund is used to account for the accumulation of resources for building and remodeling projects undertaken by the County.

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**CASS COUNTY
WALKER, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

| | Special Revenue | Debt Service | Capital Projects | Total |
|---|----------------------------|-------------------------|-----------------------------|---------------------|
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 150,114 | \$ 155,641 | \$ 720,059 | \$ 1,025,814 |
| Undistributed cash in agency funds | 2,466 | 96 | 5,460 | 8,022 |
| Taxes receivable | | | | |
| Prior | 3,608 | 2,806 | 15,785 | 22,199 |
| Due from other funds | 13,905 | - | - | 13,905 |
| Prepaid items | - | - | 2,162,800 | 2,162,800 |
| | | | | |
| Total Assets | \$ 170,093 | \$ 158,543 | \$ 2,904,104 | \$ 3,232,740 |
| <u>Liabilities and Fund Balances</u> | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 83 | \$ - | \$ 19,543 | \$ 19,626 |
| Due to other funds | 29,892 | - | - | 29,892 |
| Due to other governments | - | - | 162,102 | 162,102 |
| Deferred revenue - unavailable | 3,241 | 2,727 | 13,373 | 19,341 |
| | | | | |
| Total Liabilities | \$ 33,216 | \$ 2,727 | \$ 195,018 | \$ 230,961 |
| Fund Balances | | | | |
| Reserved for prepaid items | \$ - | \$ - | \$ 2,162,800 | \$ 2,162,800 |
| Unreserved | | | | |
| Designated for debt service | - | 155,816 | - | 155,816 |
| Designated for cash flows | 94,000 | - | - | 94,000 |
| Undesignated | 42,877 | - | 546,286 | 589,163 |
| | | | | |
| Total Fund Balances | \$ 136,877 | \$ 155,816 | \$ 2,709,086 | \$ 3,001,779 |
| Total Liabilities and Fund Balances | \$ 170,093 | \$ 158,543 | \$ 2,904,104 | \$ 3,232,740 |

**CASS COUNTY
WALKER, MINNESOTA**

Statement 2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Total</u> |
|---|----------------------------|-------------------------|-----------------------------|---------------------|
| Revenues | | | | |
| Taxes | \$ 185,586 | \$ 1,527 | \$ 407,040 | \$ 594,153 |
| Intergovernmental | 54,946 | - | 47,041 | 101,987 |
| Charges for services | 2,646 | - | - | 2,646 |
| Investment earnings | 1,522 | - | - | 1,522 |
| Total Revenues | \$ 244,700 | \$ 1,527 | \$ 454,081 | \$ 700,308 |
| Expenditures | | | | |
| Current | | | | |
| Public safety | \$ 26,973 | \$ - | \$ - | \$ 26,973 |
| Highways and streets | 337,835 | - | - | 337,835 |
| Sanitation | 1,086 | - | - | 1,086 |
| Capital outlay | - | - | 282,385 | 282,385 |
| Total Expenditures | \$ 365,894 | \$ - | \$ 282,385 | \$ 648,279 |
| Excess of Revenues Over (Under) Expenditures | \$ (121,194) | \$ 1,527 | \$ 171,696 | \$ 52,029 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 13,905 | - | - | 13,905 |
| Net Change in Fund Balance | \$ (107,289) | \$ 1,527 | \$ 171,696 | \$ 65,934 |
| Fund Balance - January 1 | 244,166 | 154,289 | 2,537,390 | 2,935,845 |
| Fund Balance - December 31 | \$ 136,877 | \$ 155,816 | \$ 2,709,086 | \$ 3,001,779 |

**CASS COUNTY
WALKER, MINNESOTA**

Statement 3

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2007**

| | Unorganized Town | Shingobee | Total |
|---|-----------------------------|------------------|-------------------|
| <u>Assets</u> | | | |
| Cash and pooled investments | \$ 111,062 | \$ 39,052 | \$ 150,114 |
| Undistributed cash in agency funds | 2,466 | - | 2,466 |
| Taxes receivable | | | |
| Prior | 3,608 | - | 3,608 |
| Due from other funds | 13,905 | - | 13,905 |
| Total Assets | \$ 131,041 | \$ 39,052 | \$ 170,093 |
| <u>Liabilities and Fund Balances</u> | | | |
| Liabilities | | | |
| Accounts payable | \$ - | \$ 83 | \$ 83 |
| Due to other funds | 29,892 | - | 29,892 |
| Deferred revenue - unavailable | 3,241 | - | 3,241 |
| Total Liabilities | \$ 33,133 | \$ 83 | \$ 33,216 |
| Fund Balances | | | |
| Unreserved | | | |
| Designated for cash flows | \$ 94,000 | \$ - | \$ 94,000 |
| Undesignated | 3,908 | 38,969 | 42,877 |
| Total Fund Balances | \$ 97,908 | \$ 38,969 | \$ 136,877 |
| Total Liabilities and Fund Balances | \$ 131,041 | \$ 39,052 | \$ 170,093 |

**CASS COUNTY
WALKER, MINNESOTA**

Statement 4

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | <u>Unorganized Town</u> | <u>Shingobee</u> | <u>Total</u> |
|---|--------------------------------|--------------------------------|---------------------------------|
| Revenues | | | |
| Taxes | \$ 185,586 | \$ - | \$ 185,586 |
| Intergovernmental | 54,946 | - | 54,946 |
| Charges for services | - | 2,646 | 2,646 |
| Investment earnings | - | 1,522 | 1,522 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Revenues | <u>\$ 240,532</u> | <u>\$ 4,168</u> | <u>\$ 244,700</u> |
| Expenditures | | | |
| Current | | | |
| Public safety | \$ 26,973 | \$ - | \$ 26,973 |
| Highways and streets | 337,835 | - | 337,835 |
| Sanitation | - | 1,086 | 1,086 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Expenditures | <u>\$ 364,808</u> | <u>\$ 1,086</u> | <u>\$ 365,894</u> |
| Excess of Revenues Over (Under) Expenditures | <u>\$ (124,276)</u> | <u>\$ 3,082</u> | <u>\$ (121,194)</u> |
| Other Financing Sources (Uses) | | | |
| Transfers in | <u>13,905</u> | <u>-</u> | <u>13,905</u> |
| Net Change in Fund Balance | <u>\$ (110,371)</u> | <u>\$ 3,082</u> | <u>\$ (107,289)</u> |
| Fund Balance - January 1 | <u>208,279</u> | <u>35,887</u> | <u>244,166</u> |
| Fund Balance - December 31 | <u><u>\$ 97,908</u></u> | <u><u>\$ 38,969</u></u> | <u><u>\$ 136,877</u></u> |

**CASS COUNTY
WALKER, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
UNORGANIZED TOWN SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 195,000 | \$ 195,000 | \$ 185,586 | \$ (9,414) |
| Intergovernmental | 40,000 | 40,000 | 54,946 | 14,946 |
| Total Revenues | \$ 235,000 | \$ 235,000 | \$ 240,532 | \$ 5,532 |
| Expenditures | | | | |
| Current | | | | |
| Public safety | | | | |
| Other public safety | \$ 35,000 | \$ 35,000 | \$ 26,973 | \$ 8,027 |
| Highways and streets | | | | |
| Maintenance | 200,000 | 335,000 | 337,835 | (2,835) |
| Total Expenditures | \$ 235,000 | \$ 370,000 | \$ 364,808 | \$ 5,192 |
| Excess of Revenues Over (Under) Expenditures | \$ - | \$ (135,000) | \$ (124,276) | \$ 10,724 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | - | - | 13,905 | 13,905 |
| Change in Fund Balance | \$ - | \$ (135,000) | \$ (110,371) | \$ 24,629 |
| Fund Balance - January 1 | 208,279 | 208,279 | 208,279 | - |
| Fund Balance - December 31 | \$ 208,279 | \$ 73,279 | \$ 97,908 | \$ 24,629 |

**CASS COUNTY
WALKER, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|-------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ - | \$ - | \$ 1,527 | \$ 1,527 |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ - | \$ - | \$ 1,527 | \$ 1,527 |
| Fund Balance - January 1 | <u>154,289</u> | <u>154,289</u> | <u>154,289</u> | <u>-</u> |
| Fund Balance - December 31 | <u>\$ 154,289</u> | <u>\$ 154,289</u> | <u>\$ 155,816</u> | <u>\$ 1,527</u> |

FIDUCIARY FUNDS

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**CASS COUNTY
WALKER, MINNESOTA**

AGENCY FUNDS

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

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**CASS COUNTY
WALKER, MINNESOTA**

Statement 5

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|--------------------------------------|------------------------------|----------------------|----------------------|--------------------------------|
| <u>TAXES AND PENALTIES</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 336,331 | \$ 41,496,356 | \$ 41,387,862 | \$ 444,825 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 239,654 | \$ 41,301,302 | \$ 41,172,656 | \$ 368,300 |
| Prepaid taxes | 96,677 | 195,054 | 215,206 | 76,525 |
| Total Liabilities | \$ 336,331 | \$ 41,496,356 | \$ 41,387,862 | \$ 444,825 |
| <u>STATE OF MINNESOTA</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 197,592 | \$ 9,038,886 | \$ 9,080,545 | \$ 155,933 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 197,592 | \$ 9,038,886 | \$ 9,080,545 | \$ 155,933 |
| <u>SCHOOL DISTRICTS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ - | \$ 7,676,818 | \$ 7,676,517 | \$ 301 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ - | \$ 7,676,818 | \$ 7,676,517 | \$ 301 |

**CASS COUNTY
WALKER, MINNESOTA**

Statement 5
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|--|------------------------------|---------------------|---------------------|--------------------------------|
| <u>TOWNS AND CITIES</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 4,524 | \$ 9,275,255 | \$ 9,274,613 | \$ 5,166 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 4,524 | \$ 9,275,255 | \$ 9,274,613 | \$ 5,166 |
| <u>MINNESOTA COUNTIES INFORMATION SYSTEMS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 714,357 | \$ 2,035,721 | \$ 1,923,858 | \$ 826,220 |
| Petty cash and change funds | 400 | - | - | 400 |
| Total Assets | \$ 714,757 | \$ 2,035,721 | \$ 1,923,858 | \$ 826,620 |
| <u>Liabilities</u> | | | | |
| Salaries payable | \$ 30,501 | \$ 35,208 | \$ 30,501 | \$ 35,208 |
| Due to other governments | 684,256 | 2,000,513 | 1,893,357 | 791,412 |
| Total Liabilities | \$ 714,757 | \$ 2,035,721 | \$ 1,923,858 | \$ 826,620 |

**CASS COUNTY
WALKER, MINNESOTA**

*Statement 5
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|--|----------------------|----------------------|----------------------|------------------------|
| <u>MISSISSIPPI HEADWATERS BOARD</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 136,606 | \$ 67,531 | \$ 60,907 | \$ 143,230 |
| Petty cash and change funds | 40 | - | - | 40 |
| Total Assets | \$ 136,646 | \$ 67,531 | \$ 60,907 | \$ 143,270 |
| <u>Liabilities</u> | | | | |
| Salaries payable | \$ 965 | \$ 1,253 | \$ 965 | \$ 1,253 |
| Due to other governments | 135,681 | 66,278 | 59,942 | 142,017 |
| Total Liabilities | \$ 136,646 | \$ 67,531 | \$ 60,907 | \$ 143,270 |
| <u>TOTAL ALL AGENCY FUNDS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 1,389,410 | \$ 69,590,567 | \$ 69,404,302 | \$ 1,575,675 |
| Petty cash and change funds | 440 | - | - | 440 |
| Total Assets | \$ 1,389,850 | \$ 69,590,567 | \$ 69,404,302 | \$ 1,576,115 |
| <u>Liabilities</u> | | | | |
| Salaries payable | \$ 31,466 | \$ 36,461 | \$ 31,466 | \$ 36,461 |
| Due to other governments | 1,261,707 | 69,359,052 | 69,157,630 | 1,463,129 |
| Prepaid taxes | 96,677 | 195,054 | 215,206 | 76,525 |
| Total Liabilities | \$ 1,389,850 | \$ 69,590,567 | \$ 69,404,302 | \$ 1,576,115 |

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OTHER SCHEDULE

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**CASS COUNTY
WALKER, MINNESOTA**

Schedule 7

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | Governmental Funds | Component Units |
|--|-------------------------------|----------------------------|
| Shared Revenue | | |
| State | | |
| Highway users tax | \$ 4,708,694 | \$ - |
| County program aid | 777,495 | - |
| PERA rate reimbursement | 51,886 | - |
| Disparity reduction aid | 7,404 | - |
| Police aid | 195,741 | - |
| E-911 | 106,025 | - |
| Market value credit aid | 1,102,608 | - |
| Market value credit - residential | 71,426 | - |
| | \$ 7,021,279 | \$ - |
| Reimbursement for Services | | |
| Minnesota Department of Human Services | \$ 2,562,479 | \$ - |
| Payments | | |
| Local | | |
| Local contributions | \$ 50,861 | \$ - |
| Payments in lieu of taxes | 966,093 | - |
| | \$ 1,016,954 | \$ - |
| Grants | | |
| State | | |
| Minnesota Department of Administration | \$ 50,000 | \$ - |
| Corrections | 171,830 | - |
| Crime Victim Services | 40,470 | - |
| Public Safety | 69,060 | - |
| Transportation | 29,581 | - |
| Health | 401,516 | - |
| Natural Resources | 489,790 | - |
| Human Services | 1,531,896 | - |
| Veterans Affairs | 3,056 | - |
| Pollution Control Agency | - | 94,190 |
| Office of Environmental Assistance | 67,561 | - |
| | \$ 2,854,760 | \$ 94,190 |

**CASS COUNTY
WALKER, MINNESOTA**

Schedule 7
(Continued)

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | <u>Governmental Funds</u> | <u>Component Units</u> |
|--|-------------------------------|----------------------------|
| Grants (Continued) | | |
| Federal | | |
| Department of | | |
| Agriculture | \$ 461,724 | \$ - |
| Interior | 169,414 | - |
| Justice | 23,714 | - |
| Transportation | 1,697,774 | - |
| Health and Human Services | 1,181,900 | - |
| Homeland Security | 53,930 | - |
| Housing and Urban Development | - | 429,852 |
| | <hr/> | <hr/> |
| Total Federal | \$ 3,588,456 | \$ 429,852 |
| | <hr/> | <hr/> |
| Total State and Federal Grants | \$ 6,443,216 | \$ 524,042 |
| | <hr/> | <hr/> |
| Total Intergovernmental Revenue | \$ 17,043,928 | \$ 524,042 |
| | <hr/> <hr/> | <hr/> <hr/> |

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**CASS COUNTY
WALKER, MINNESOTA**

Schedule 8

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2007

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Cass County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Cass County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Cass 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 Cass 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:

| | |
|---|--------------|
| National Forest Lands | CFDA #10.665 |
| Temporary Assistance for Needy Families | CFDA #93.558 |
| Rural Health Outreach Grant Program | CFDA #93.912 |
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Cass 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 ITEMS NOT RESOLVED

96-7 Departmental Internal Accounting Controls

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

We recommend that County management be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are as management intended.

Client's Response:

The County will continue to emphasize the need for Department Heads to segregate accounting functions whenever possible and to closely supervise those areas where proper segregation of duties cannot be achieved.

06-1 Preparation of Financial Statements

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

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Currently, the County has its external auditor prepare the conversion

adjustments needed to prepare the government-wide financial statements. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This arrangement is not unusual for an organization the size of Cass County. This decision was based on the availability of the County's staff and cost benefit of using our expertise rather than to prepare the financial statements internally. As a result of this condition, the County has implemented oversight procedures to compensate for this internal control weakness as it relates to the preparation of financial statements in accordance with GAAP.

We recommend that the County continually review and monitor the internal controls that have been established for the preparation of its annual financial statements in accordance with GAAP.

Client's Response:

The County will continue to rely on the Office of the State Auditor's (OSA) expertise in assisting the County with the preparation of its financial statements. The Chief Financial Officer will work with accounting staff to minimize the work performed by the OSA staff and act as the qualified individual who will review, understand, and approve the County's financial statements. County management will continue to review and monitor internal controls as they relate to the preparation of the County's financial statements and review and approve the draft statements prior to completion of the audit process.

ITEMS ARISING THIS YEAR

07-1 Disposal of Voided Checks

Our review of County disbursements detected an instance in which a duplicate check run occurred. The duplicate check numbers were listed as voided in the accounting records. County management was unavailable at the time to instruct staff in proper procedures. In the absence of a formal policy identifying County procedures for handling voided checks, staff shredded the voids. As a result, they were not available for review during testing of disbursements.

We recommend that the County include in its new accounting policies and procedures manual a procedure for handling voided checks. Voids should be mutilated in some manner to prevent reuse but retained for subsequent review by management and others according to the County's record retention policy.

Client's Response:

The County has implemented the following policy and has shared the policy with appropriate accounting and MIS staff to insure that voided checks will not be destroyed in the future. This policy will be made part of the final accounting procedures manual.

Cass Policy for Disposal of Voided Checks:

Cass County checks that are voided or cancelled, are mutilated to prevent reuse, and retained for subsequent review by management and others according to the Minnesota County General Records Retention Schedule. Checks are mutilated by stamping the word "VOID" across the face of the check and cutting out the signature area. Occasionally during check printing, the printer will "jam" and a duplicate check or partial check is printed. A duplicate check or partially printed check is shredded.

07-2 Reconciliation of Inmate Trust Fund

Cash in the inmate trust fund bank account does not reconcile properly to the general ledger balance maintained at the jail. Available cash exceeded the general ledger balance by \$5,959. The balance has continued to be carried forward as an unreconciled difference, and the cause of the variance is not certain. The Jail Administrator indicated that it most likely represents fees that were collected from inmate accounts due to the County. Although the general ledger records were adjusted, the actual cash was never transferred from the inmate bank account to Cass County.

We recommend the Chief Financial Officer review reconciliation procedures with the Jail Administrator to ensure that timely and accurate reconciliations are performed. The nature of any excess funds should be determined and remitted as required.

Client's Response:

The Jail Administrator and the Chief Financial Officer reviewed and established additional reconciliation procedures that are conducted at every shift change. The County Board approved a balance of \$2,000 to be maintained in the account. The excess balance was transferred to the General Fund as required.

PREVIOUSLY REPORTED ITEMS RESOLVED

Audit Adjustments (06-2)

The County relied on its independent external auditor to assist in making adjustments necessary for financial statements.

Resolution

The County's Chief Financial Officer was identified as the individual responsible for reviewing, understanding, and approving the adjustments proposed by the external auditor for the financial statements.

SSIS Segregation of Duties (06-3)

Health, Human, and Veterans Services (HHVS) management had not performed a risk assessment to ensure levels of access to its Social Services Information System (SSIS) software were appropriate and, where possible, limited incompatible access to SSIS functions.

Resolution

HHVS management performed a review of staff access levels to its SSIS software and made appropriate adjustments.

Accounting Policies and Procedures Manual (06-4)

The County did not have a current accounting policies and procedures manual.

Resolution

Cass County has developed a draft accounting policies and procedures manual that has been presented to its County Board of Commissioners for approval.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

07-3 Collateral Assignments

Collateral assignments reviewed did not contain the language required under Minn. Stat. § 118A.03, subd. 4, which states that “upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged.” Inclusion of this statement evidences that control over the securities pledged lies with the County.

We recommend that future collateral assignments recite the language required under Minn. Stat. § 118A.03, subd. 4.

Client’s Response:

All future collateral assignments shall recite the language required under Minn. Stat. § 118A.03, subd. 4, which states that “upon default, the depository shall release the collateral pledged to the government entity on demand.”

PREVIOUSLY REPORTED ITEM RESOLVED

Late Payment of Claims (06-5)

A vendor claim was paid after the 35-day requirement under Minn. Stat. § 471.425.

Resolution

No late payments of claims were detected in the current year.

B. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

07-4 Inmate Trust Account Cash

During our review of the daily cash transaction activity records of the inmate trust checking account at the County Jail, an envelope containing a \$20 deposit was found included in the file containing the records. The money had been collected on August 26, 2007, and recorded in the general ledger, but had not been deposited in the inmate trust bank account. The Jail Administrator indicated that it appeared the deposit had been misplaced and not noticed.

We recommend that the Chief Financial Officer review depositing practices at the jail. Money collected should be deposited intact and in a timely manner in the inmate trust bank account.

Client's Response:

Procedures have been established that require deposits every Monday and Friday, and more frequently if significant amounts of cash are received.

PREVIOUSLY REPORTED ITEM RESOLVED

County Purchasing Policy (06-6)

The County purchasing policy was not updated to reflect current County purchasing practices.

Resolution

The County's purchasing policy was updated as part of the creation of an accounting policies and procedures manual.

C. OTHER ITEMS FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for

government employee pension benefits, provides the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

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

This year, the legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows governments to create both irrevocable and revocable trusts;
- it authorizes the use of a different list of permissible investments for both irrevocable and revocable OPEB trusts; and
- it also permits governments to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

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

- determine whether the County will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing the applicable investment standard; and
- if an OPEB trust will be established, the County Board will have to decide whether to establish an irrevocable or a revocable trust, and report that trust appropriately in the financial statements.

GASB Statement 45 would be applicable to Cass County for the year ended December 31, 2008.

Client's Response:

Cass County is aware of the GASB 45 requirements and is under contract with an actuarial firm to provide the necessary information for completion of its 2008 financial statements. Cass County's position is to maintain the current pay-as-you-go funding plan.

Pollution Remediation Obligations

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, becomes effective beginning with the year ending December 31, 2008. This statement addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

GASB Statement 49 may require the accrual of a liability for future expenditures if certain obligating events have occurred. The County should evaluate the possible effect this accounting standard will have, if any, on the County's financial statements.

Client's Response:

Cass County is aware of GASB 49 and to date has not identified any liabilities that would affect the County's financial statements.

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

Board of County Commissioners
Cass County

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Cass County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 15, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Cass County Housing and Redevelopment Authority (HRA) and the Pine River Area Sanitary District (District) discretely presented component units, as described in our report on Cass County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-7, 06-1, 07-1, and 07-2 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cass 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, Cass County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 07-3.

Also included in the Schedule of Findings and Questioned Costs is a management practices comment and other items for consideration. We believe these recommendations and information to be of benefit to Cass County, and they are reported for that purpose.

Cass County's written responses to the significant deficiencies, legal compliance and management practices findings, and other items identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

October 15, 2008

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

Board of County Commissioners
Cass County

Compliance

We have audited the compliance of Cass 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, 2007. Cass 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.

Cass County's financial statements include the operations of the Cass County Housing and Redevelopment Authority (HRA) component unit, which expended \$429,852 in federal awards during the year ended December 31, 2007, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Cass County HRA because it was audited by other auditors.

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 Cass 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, Cass 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, 2007.

Internal Control Over Compliance

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

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Cass County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 15, 2008. We did not audit the financial statements of the Cass County HRA and Pine River Area Sanitary District discretely presented component units. Those financial statements were audited by other auditors. Our audit was performed for the purpose of forming opinions on Cass 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 others within the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

October 15, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**CASS COUNTY
WALKER, MINNESOTA**

Schedule 9

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Expenditures |
|---|------------------------------------|----------------------------|
| U.S. Department of Agriculture | | |
| Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | \$ 132,510 |
| Passed Through Minnesota Department of Transportation Cooperative Forestry Assistance | 10.664 | 13,500 |
| Passed Through Minnesota Department of Finance National Forest Lands | 10.665 | <u>315,714</u> |
| Total U.S. Department of Agriculture | | <u>\$ 461,724</u> |
| U.S. Department of the Interior | | |
| Direct Federal Payments in Lieu of Taxes | 15.226 | <u>\$ 169,414</u> |
| U.S. Department of Justice | | |
| Direct Bulletproof Vest Partnership Program | 16.607 | \$ 5,300 |
| Passed Through Minnesota Department of Public Safety Juvenile Accountability Incentive Block Grant | 16.523 | <u>18,414</u> |
| Total U.S. Department of Justice | | <u>\$ 23,714</u> |
| U.S. Department of Transportation | | |
| Passed Through Minnesota Department of Transportation Highway Planning and Construction | 20.205 | \$ 1,749,335 |
| Passed Through Minnesota Department of Public Safety Highway Safety Cluster | | |
| Safe and Sober Grant | 20.600 | 20,400 |
| Alcohol, Traffic, Safety, and Drunk Driving Grant | 20.601 | <u>15,506</u> |
| Total U.S. Department of Transportation | | <u>\$ 1,785,241</u> |

**CASS COUNTY
WALKER, MINNESOTA**

**Schedule 9
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Expenditures |
|---|------------------------------------|---------------------|
| U.S. Department of Health and Human Services | | |
| Direct | | |
| Rural Health Outreach Grant | 93.912 | \$ 198,983 |
| Passed Through Minnesota Department of Human Services | | |
| Immunization Grants | 93.268 | 1,600 |
| Center for Disease Control and Prevention - Public Health Preparedness Grant | 93.283 | 52,011 |
| Maternal and Child Health | 93.994 | 36,062 |
| Temporary Assistance for Needy Families (TANF) | 93.558 | 407,444 |
| Family Connections Grant | 93.590 | 9,003 |
| Child Care Cluster | | |
| Child Care Development Block Grant | 93.575 | 12,589 |
| Child Care Mandatory and Matching Funds | 93.596 | 18,859 |
| Foster Care Title IV-E | 93.658 | 188,987 |
| Social Services Block Grant Title XX | 93.667 | 243,415 |
| Chafee Foster Care Independence Program | 93.674 | 1,945 |
| Block Grants for Community Mental Health Services | 93.958 | 11,002 |
| Total U.S. Department of Health and Human Services | | \$ 1,181,900 |
| U.S. Department of Homeland Security | | |
| Passed Through Minnesota Department of Public Safety | | |
| Boating Safety Financial Assistance | 97.012 | \$ 43,030 |
| Emergency Management Performance Grant | 97.042 | 10,900 |
| Total U.S. Department of Homeland Security | | \$ 53,930 |
| Total Federal Awards | | \$ 3,675,923 |

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 Cass County. The County's reporting entity is defined in Note 1 to the basic financial statements. The schedule does not include \$429,852 in federal awards expended by the Cass County Housing and Redevelopment Authority component unit, which has a separate audit performed by other auditors.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Expenditures on this schedule differ from federal revenues reported due to certain expenditures reported when the revenues are not available for recognition using the modified accrual basis of accounting. In 2007, a deferred revenue of \$87,467 was not recognized as revenue because the period of availability criteria had not been met under modified accrual accounting.
3. Pass-through grant numbers were provided if available.
4. Cass County did not pass any federal awards to subrecipients in 2007.