

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

ITASCA COUNTY
GRAND RAPIDS, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

For the Year Ended December 31, 2004



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

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

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GRAND RAPIDS, MINNESOTA**

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2004

			<u>Term Expires</u>
Elected			
Commissioner	Russell Klegstad	District 1	January 2007
Commissioner	Catherine McLynn	District 2	January 2005
Commissioner	John Dimich*	District 3	January 2007
Commissioner	Russell A. Eichorn	District 4	January 2005
Commissioner	Mark Mandich	District 5	January 2007
Attorney	John J. Muhar		January 2007
Auditor/Treasurer	Robert Zuehlke		January 2007
County Recorder	Jean Bengston		January 2007
County Sheriff	Pat Medure		January 2007
District Judge	John Hawkinson		January 2011
District Judge	Lois Lang		January 2009
District Judge	Jon Maturi		January 2011
Appointed			
Assessor	Tom Gilmore		Indefinite
Coroner	Dr. Michael Baich		Indefinite
Coordinator	Robert Olson		Indefinite
Emergency Management Director	Pat Medure		Indefinite
Highway Engineer	Dave Christy		Indefinite
Surveyor	Greg Fordham		Indefinite
Veterans Service Officer	Marvin Ott		Indefinite
Health and Human Services Board			
Chair	Russell A. Eichorn		January 2005
Vice Chair	Russell Klegstad		January 2007
Member	John Dimich		January 2007
Member	Mark Mandich		January 2007
Member	Catherine McLynn		January 2005
Director	Lester Kachinske		Indefinite

*Chair 2004

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Itasca County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Itasca County, Minnesota, as of and for the year ended December 31, 2004, including the County Nursing Home Enterprise Fund as of and for the year ended September 30, 2004, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Itasca County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Itasca Medical Care Enterprise Fund, which statements represent 37 percent of the assets and 73 percent of the operating revenues of the enterprise fund type. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Itasca Medical Care Enterprise Fund, is based solely upon the report of other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Itasca County as of December 31, 2004, including the County

Nursing Home Enterprise Fund at September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated June 20, 2005, on our consideration of Itasca County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: June 20, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

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

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

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$144,157,570, of which \$100,424,982 is invested in capital assets, net of related debt, and \$16,426,951 is restricted to specific purposes.
- Business-type activities have total net assets of \$8,984,053. Invested in capital assets, net of related debt, represents \$4,472,818 of the total. Of the total business-type net assets, \$444,034 are restricted for specific uses.
- Itasca County's net assets increased by \$10,757,288 for the year ended December 31, 2004. Of the increase, \$10,514,238 was in the governmental activities' net assets and \$243,050 represented the increase in business-type activities' net assets.
- The net cost of governmental activities was \$20,445,041 for the current fiscal year. The net cost was funded by general revenues and contributions totaling \$30,959,279.
- Governmental funds' fund balances increased by \$4,464,235.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

Fund Financial Statements

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

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

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

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

- Proprietary funds--When the County charges customers for the services it provides--whether to outside customers or to other units of the County--these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the County's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the County's other programs and activities--such as the County's Risk Management Fund.
- Proprietary fund financial statements may be found in Exhibits 7 through 9.

Reporting the County's Fiduciary Responsibilities

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

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

The fiduciary funds financial statements are Exhibits 10 and 11.

THE COUNTY AS A WHOLE

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

Table 1
Net Assets
(In Millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 56.2	\$ 51.6	\$ 10.9	\$ 14.7	\$ 67.1	\$ 66.3
Capital assets	109.8	105.3	10.2	6.8	120.0	112.1
Total Assets	\$ 166.0	\$ 156.9	\$ 21.1	\$ 21.5	\$ 187.1	\$ 178.4
Long-term debt outstanding	\$ (14.3)	\$ (15.4)	\$ (7.8)	\$ (8.8)	\$ (22.1)	\$ (24.2)
Other liabilities	(7.5)	(7.8)	(4.3)	(4.0)	(11.8)	(11.8)
Total Liabilities	\$ (21.8)	\$ (23.2)	\$ (12.1)	\$ (12.8)	\$ (33.9)	\$ (36.0)
Net Assets						
Invested in capital assets, net of debt	\$ 100.4	\$ 94.9	\$ 4.5	\$ 2.5	\$ 104.9	\$ 97.4
Restricted	16.5	12.6	.4	.5	16.9	13.1
Unrestricted	27.3	26.2	4.1	5.7	31.4	31.9
Total Net Assets	\$ 144.2	\$ 133.7	\$ 9.0	\$ 8.7	\$ 153.2	\$ 142.4

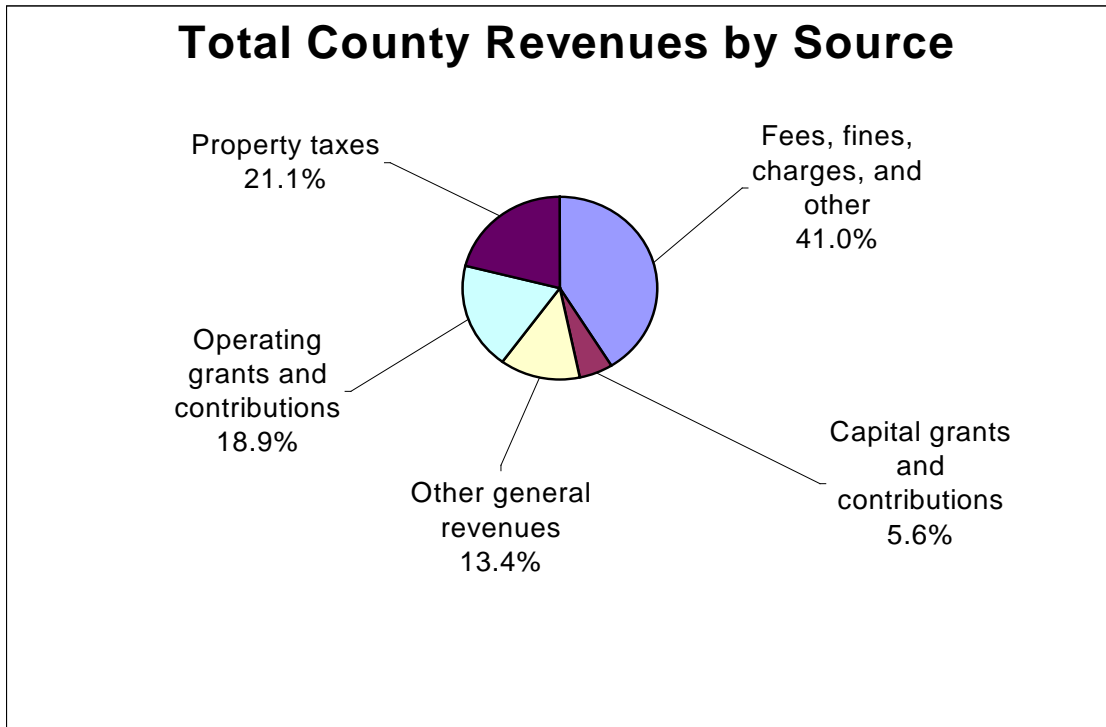
TABLE 2
Changes in Net Assets
(In Millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Revenues						
Program revenues						
Fees, fines, charges, and other	\$ 9.1	\$ 9.6	\$ 28.0	\$ 26.7	\$ 37.1	\$ 36.3
Operating grants and contributions	17.1	16.2	-	-	17.1	16.2
Capital grants and contributions	5.0	4.9	-	-	5.0	4.9
General revenues						
Property taxes	19.1	17.7	-	-	19.1	17.7
Other taxes	1.0	.9	-	-	1.0	.9
Other general revenues	8.4	8.6	.2	.2	8.6	8.8
Contributions to permanent fund	2.5	3.2	-	-	2.5	3.2
Total Revenues	\$ 62.2	\$ 61.1	\$ 28.2	\$ 26.9	\$ 90.4	\$ 88.0

(Unaudited)

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	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Expenses						
General government	\$ 8.1	\$ 8.0	\$ -	\$ -	\$ 8.1	\$ 8.0
Public safety	7.8	7.2	-	-	7.8	7.2
Culture and recreation	.8	.8	-	-	.8	.8
Highways and streets	13.3	8.3	-	-	13.3	8.3
Human services	15.2	16.4	-	-	15.2	16.4
Health	1.5	1.4	-	-	1.5	1.4
Sanitation	1.5	1.5	-	-	1.5	1.5
Conservation of natural resources	3.0	2.8	-	-	3.0	2.8
Economic development	.1	.1	-	-	.1	.1
Interest	.4	.4	-	-	.4	.4
Nursing Home	-	-	6.9	6.2	6.9	6.2
Itasca Resource Center	-	-	.5	.5	.5	.5
Itasca Medical Care	-	-	20.5	19.8	20.5	19.8
Total Expenses	\$ 51.7	\$ 46.9	\$ 27.9	\$ 26.5	\$ 79.6	\$ 73.4
Increase (Decrease) in Net Assets	\$ 10.5	\$ 14.2	\$.3	\$.4	\$ 10.8	\$ 14.6
Net Assets - January 1	133.7	119.5	8.7	8.3	142.4	127.8
Net Assets - December 31	<u>\$ 144.2</u>	<u>\$ 133.7</u>	<u>\$ 9.0</u>	<u>\$ 8.7</u>	<u>\$ 153.2</u>	<u>\$ 142.4</u>



Governmental Activities

The cost of all governmental activities this year was \$51.7 million. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$20.4 million because some of the cost was paid by those who directly benefited from the programs (\$9.1 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$22.2 million).

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

Table 3
Governmental Activities
(In Millions)

	Total Cost of Services		Net Cost of Services	
	2004	2003	2004	2003
Human services	\$ 15.2	\$ 16.4	\$ 5.6	\$ 5.8
Highways and streets	13.3	8.3	2.7	(1.0)
General government	8.1	8.0	6.1	6.3
Public safety	7.8	7.2	6.0	5.7
Conservation of natural resources	3.0	2.8	(1.7)	(2.5)
All others	4.3	4.2	1.7	1.9
Totals	\$ 51.7	\$ 46.9	\$ 20.4	\$ 16.2

Business-Type Activities

Revenues of the County's business-type activities increased by 4.9 percent and expenses increased by 5.5 percent. About 40 percent of the increase in revenues and expenses is an increase in Itasca Nursing Home revenues and expenses due to the opening of an expansion in 2004. The other 60 percent of increase in revenues and expenses are increased Itasca Medical Care revenues and expenses.

The County's Funds

As the County completed the year, its governmental funds reported a combined fund balance of \$41 million, which is above last year's total of \$36.5 million. Included in this year's total fund balance is a surplus of \$10.2 million in the County's General Fund. The governmental funds fund balances increased by 12 percent over last year.

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) for the County's General Fund budget were \$.8 million above the final budget amounts. The most significant positive variance (\$.1 million) occurred in planning and zoning. The most significant negative variances were in the public safety category (\$.4 million) and the culture and recreation category (\$.3 million) because certain grant expenditures were unbudgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the County had \$119.9 million invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4 below.) This amount represents a net increase (including additions and deductions) of \$7.8 million, or seven percent, over last year. For more information on capital assets, see Note 3.A.3. to the financial statements.

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

	Governmental Activities		Business-Type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Land	\$ 1.1	\$ 0.7	\$ 0.3	\$ 0.3	\$ 1.4	\$ 1.0
Construction in progress	-	-	-	0.5	-	0.5
Buildings and improvements	17.1	17.6	9.2	5.7	26.3	23.3
Machinery, furniture, and equipment	6.4	6.8	0.7	0.3	7.1	7.1
Infrastructure	85.1	80.2	-	-	85.1	80.2
Totals	<u>\$ 109.7</u>	<u>\$ 105.3</u>	<u>\$ 10.2</u>	<u>\$ 6.8</u>	<u>\$ 119.9</u>	<u>\$ 112.1</u>

Debt

At year-end, the County had \$15.3 million in bonds and notes outstanding, versus \$16.4 million last year--a decrease of over seven percent--as shown in Table 5.

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

	Governmental Activities		Business-Type Activities		Totals	
	2004	2003	2004	2003	2004	2003
General obligation bonds and notes (backed by the County)	\$ 9.4	\$ 10.4	\$ 1.5	\$ 1.6	\$ 10.9	\$ 12.0
Revenue bonds	-	-	4.4	4.4	4.4	4.4
Totals	<u>\$ 9.4</u>	<u>\$ 10.4</u>	<u>\$ 5.9</u>	<u>\$ 6.0</u>	<u>\$ 15.3</u>	<u>\$ 16.4</u>

The state limits the amount of net debt that the County can issue to two percent of the market value of all taxable property in the County. The County's outstanding net debt is significantly below this \$52.5 million state-imposed limit.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

- County expenditures for 2005 are budgeted to increase 5 percent over 2004.
- Property taxes levied have increased 2.88 percent for 2005.

CONTACTING ITASCA COUNTY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 1

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

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 45,322,666	\$ 7,495,251	\$ 52,817,917
Receivables - net	10,303,307	2,032,592	12,335,899
Internal balances	(299,082)	299,082	-
Inventories	777,093	38,526	815,619
Prepaid items	51,883	122,883	174,766
Restricted assets			
Cash and pooled investments	-	717,604	717,604
Accrued interest receivable	-	2,489	2,489
Resident trust funds	-	18,196	18,196
Deferred charges	10,585	140,817	151,402
Capital assets			
Non-depreciable capital assets	1,126,668	279,296	1,405,964
Depreciable capital assets - net of accumulated depreciation	108,648,314	9,930,404	118,578,718
Total Assets	\$ 165,941,434	\$ 21,077,140	\$ 187,018,574
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 6,255,316	\$ 3,723,182	\$ 9,978,498
Accrued interest payable	146,420	-	146,420
Payable from restricted assets			
Contracts payable	-	17,179	17,179
Interest payable	-	53,407	53,407
Due to residents	-	18,196	18,196
Long-term liabilities			
Due within one year	1,090,000	517,650	1,607,650
Due in more than one year	14,292,128	7,763,473	22,055,601
Total Liabilities	\$ 21,783,864	\$ 12,093,087	\$ 33,876,951
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 100,424,982	\$ 4,472,818	\$ 104,897,800
Restricted for			
Public safety	315,420	-	315,420
Highways and streets	1,863,970	-	1,863,970
Capital projects	4,843,257	-	4,843,257
Debt service	1,733,686	385,223	2,118,909
Conservation of natural resources	7,670,618	-	7,670,618
Donor projects	-	58,811	58,811
Unrestricted	27,305,637	4,067,201	31,372,838
Total Net Assets	\$ 144,157,570	\$ 8,984,053	\$ 153,141,623

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

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

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Governmental activities		
General government	\$ 8,119,003	\$ 1,214,354
Public safety	7,813,355	531,109
Highways and streets	13,323,819	1,098,417
Sanitation	1,528,038	514,259
Human services	15,213,904	1,271,126
Health	1,506,197	102,984
Culture and recreation	818,571	29,948
Conservation of natural resources	2,972,875	4,334,379
Economic development	95,000	-
Interest	365,458	-
Total governmental activities	\$ 51,756,220	\$ 9,096,576
Business-type activities		
Nursing Home	\$ 6,885,778	\$ 7,012,301
Itasca Resource Center	475,226	419,951
Itasca Medical Care	20,582,563	20,582,563
Total business-type activities	\$ 27,943,567	\$ 28,014,815
Total	\$ 79,699,787	\$ 37,111,391

General Revenues

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

Contributions to permanent fund

Total general revenues and contributions

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	Governmental Activities	Business-Type Activities	Total
\$ 745,799	\$ -	\$ (6,158,850)	\$ -	\$ (6,158,850)
1,240,049	-	(6,042,197)	-	(6,042,197)
5,350,502	4,166,321	(2,708,579)	-	(2,708,579)
100,970	904,275	(8,534)	-	(8,534)
8,373,334	-	(5,569,444)	-	(5,569,444)
477,549	-	(925,664)	-	(925,664)
489,014	-	(299,609)	-	(299,609)
366,790	-	1,728,294	-	1,728,294
-	-	(95,000)	-	(95,000)
-	-	(365,458)	-	(365,458)
\$ 17,144,007	\$ 5,070,596	\$ (20,445,041)	\$ -	\$ (20,445,041)
\$ 416	\$ -	\$ -	\$ 126,939	\$ 126,939
-	-	-	(55,275)	(55,275)
-	-	-	-	-
\$ 416	\$ -	\$ -	\$ 71,664	\$ 71,664
\$ 17,144,423	\$ 5,070,596	\$ (20,445,041)	\$ 71,664	\$ (20,373,377)
		\$ 19,097,550	\$ -	\$ 19,097,550
		951,328	-	951,328
		51,434	-	51,434
		478,586	-	478,586
		6,115,056	31,274	6,146,330
		3,230	22,257	25,487
		796,882	117,855	914,737
		740,440	-	740,440
		211,108	-	211,108
		2,513,665	-	2,513,665
		\$ 30,959,279	\$ 171,386	\$ 31,130,665
		\$ 10,514,238	\$ 243,050	\$ 10,757,288
		133,643,332	8,741,003	142,384,335
		\$ 144,157,570	\$ 8,984,053	\$ 153,141,623

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

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

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 9,388,288	\$ 6,207,116
Petty cash and change funds	9,670	50
Undistributed cash in agency funds	422,729	288,365
Taxes receivable		
Prior	202,935	160,280
Special assessments receivable		
Prior	-	-
Accounts receivable	12,150	26,338
Accrued interest receivable	148,911	-
Due from other funds	752,483	550,894
Due from other governments	420,977	3,017,661
Loans receivable	-	-
Inventories	6,617	770,476
Prepaid items	51,883	-
	\$ 11,416,643	\$ 11,021,180
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 307,143	\$ 497,633
Severance payable	-	-
Salaries payable	566,577	184,994
Escheat property payable	16,631	-
Contracts payable	-	501,275
Due to other funds	63,540	29
Due to other governments	1,898	3,193
Deferred revenue - unavailable	235,010	2,532,763
	\$ 1,190,799	\$ 3,719,887
Fund Balances		
Reserved for		
Inventories	\$ 6,617	\$ 770,476
Enhanced 911	315,420	-
Environmental improvements	-	-
Title III Chippewa	162,423	-
Unreserved		
Undesignated	9,741,384	6,530,817
Unreserved, reported in nonmajor		
Special revenue funds	-	-
Debt service fund	-	-
Capital projects fund	-	-
	\$ 10,225,844	\$ 7,301,293
	\$ 11,416,643	\$ 11,021,180

EXHIBIT 3

Health and Human Services	Forfeited Tax	Environmental Permanent	Other Governmental Funds	Total Governmental Funds
\$ 2,135,606	\$ 3,558,706	\$ 7,508,195	\$ 11,544,262	\$ 40,342,173
350	-	-	325	10,395
650,303	-	-	130,480	1,491,877
143,623	-	-	57,212	564,050
-	-	-	107,768	107,768
12,806	4,535,425	-	62,626	4,649,345
-	-	-	-	148,911
8,971	-	-	2,168,508	3,480,856
1,257,433	-	-	23	4,696,094
-	-	-	127,000	127,000
-	-	-	-	777,093
-	-	-	-	51,883
\$ 4,209,092	\$ 8,094,131	\$ 7,508,195	\$ 14,198,204	\$ 56,447,445
\$ 696,361	\$ 15,492	\$ -	\$ 289,199	\$ 1,805,828
-	-	-	83,718	83,718
198,282	-	-	37,170	987,023
-	-	-	-	16,631
-	-	-	-	501,275
437,694	2,782,091	-	496,584	3,779,938
526,974	796,977	-	25	1,329,067
324,820	3,581,813	-	291,980	6,966,386
\$ 2,184,131	\$ 7,176,373	\$ -	\$ 1,198,676	\$ 15,469,866
\$ -	\$ -	\$ -	\$ -	\$ 777,093
-	-	-	-	315,420
-	-	7,508,195	-	7,508,195
-	-	-	-	162,423
2,024,961	917,758	-	-	19,214,920
-	-	-	6,422,585	6,422,585
-	-	-	1,733,686	1,733,686
-	-	-	4,843,257	4,843,257
\$ 2,024,961	\$ 917,758	\$ 7,508,195	\$ 12,999,528	\$ 40,977,579
\$ 4,209,092	\$ 8,094,131	\$ 7,508,195	\$ 14,198,204	\$ 56,447,445

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)	\$	40,977,579
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.		109,774,982
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		5,463,444
Internal service funds are used by management to charge the costs of self-insurance to individual funds. Internal service fund assets and liabilities are included in governmental activities in the statement of net assets.		
Total internal service fund net assets		3,060,164
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (9,350,000)	
Compensated absences	(5,632,764)	
Accrued interest payable	(146,420)	
Deferred debt issuance charges	10,585	
		(15,118,599)
Net assets of governmental activities (Exhibit 1)	\$	144,157,570

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

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

	General	Road and Bridge
Revenues		
Taxes	\$ 7,910,936	\$ 5,436,538
Special assessments	-	-
Licenses and permits	52,050	-
Intergovernmental	5,620,474	11,464,540
Charges for services	1,091,413	1,026,992
Fines and forfeits	55,550	-
Gifts and contributions	3,230	-
Investment earnings	664,731	-
Miscellaneous	723,759	351,222
Total Revenues	\$ 16,122,143	\$ 18,279,292
Expenditures		
Current		
General government	\$ 6,290,094	\$ -
Public safety	7,388,961	-
Highways and streets	-	17,064,328
Sanitation	-	-
Human services	-	-
Health	158,657	-
Culture and recreation	346,866	-
Conservation of natural resources	277,810	-
Economic development	95,000	-
Debt service		
Principal retirement	-	-
Interest	-	-
Administrative (fiscal) charges	-	-
Total Expenditures	\$ 14,557,388	\$ 17,064,328
Excess of Revenues Over (Under) Expenditures	\$ 1,564,755	\$ 1,214,964
Other Financing Sources (Uses)		
Transfers in	\$ 687,847	\$ -
Transfers out	(3,163,784)	(50,000)
Total Other Financing Sources (Uses)	\$ (2,475,937)	\$ (50,000)
Net Change in Fund Balance	\$ (911,182)	\$ 1,164,964
Fund Balance - January 1	11,145,994	6,083,150
Increase (decrease) in reserved for inventories	(8,968)	53,179
Fund Balance - December 31	\$ 10,225,844	\$ 7,301,293

EXHIBIT 5

Health and Human Services	Forfeited Tax	Environmental Permanent	Other Governmental Funds	Total Governmental Funds
\$ 4,785,338	\$ -	\$ -	\$ 1,894,830	\$ 20,027,642
-	-	-	895,988	895,988
-	-	-	250	52,300
9,556,478	-	-	719,542	27,361,034
1,192,092	-	-	613,902	3,924,399
-	-	-	-	55,550
-	-	-	-	3,230
-	-	79,865	12,426	757,022
360,456	4,257,507	2,272,528	439,394	8,404,866
\$ 15,894,364	\$ 4,257,507	\$ 2,352,393	\$ 4,576,332	\$ 61,482,031
\$ -	\$ 796,977	\$ -	\$ 837,479	\$ 7,924,550
-	-	-	316,074	7,705,035
-	-	-	986,136	18,050,464
-	-	-	1,498,394	1,498,394
15,131,822	-	-	-	15,131,822
1,276,926	-	-	70,614	1,506,197
-	-	-	403,280	750,146
-	1,698,597	34,817	964,587	2,975,811
-	-	-	-	95,000
-	-	-	1,060,000	1,060,000
-	-	-	362,176	362,176
-	-	-	2,412	2,412
\$ 16,408,748	\$ 2,495,574	\$ 34,817	\$ 6,501,152	\$ 57,062,007
\$ (514,384)	\$ 1,761,933	\$ 2,317,576	\$ (1,924,820)	\$ 4,420,024
\$ 31,150	\$ -	\$ -	\$ 4,088,332	\$ 4,807,329
-	(1,445,356)	-	(148,189)	(4,807,329)
\$ 31,150	\$ (1,445,356)	\$ -	\$ 3,940,143	\$ -
\$ (483,234)	\$ 316,577	\$ 2,317,576	\$ 2,015,323	\$ 4,420,024
2,508,195	601,181	5,190,619	10,984,205	36,513,344
-	-	-	-	44,211
\$ 2,024,961	\$ 917,758	\$ 7,508,195	\$ 12,999,528	\$ 40,977,579

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5)	\$	4,420,024
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>In the funds, under the modified accrual basis, receivables not available for expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues is the increase (decrease) in revenues deferred as unavailable.</p>		
		352,819
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Expenditures for general capital assets and infrastructure	\$ 8,303,679	
Current year depreciation	<u>(3,727,346)</u>	4,576,333
<p>In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the capital assets disposed of.</p>		
		(80,252)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
Principal repayments		
General obligation bonds		1,060,000
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Change in accrued interest payable	\$ 8,910	
Amortization of deferred issuance charges	(9,780)	
Change in compensated absences	(29,613)	
Change in inventories	<u>44,211</u>	13,728
<p>Internal service funds are used by management to charge the costs of certain activities to individual funds. The net (expense) revenue of certain activities of the internal service funds is reported with governmental activities.</p>		
Internal service fund net income		<u>171,586</u>
Change in net assets of governmental activities (Exhibit 2)	\$	<u>10,514,238</u>

PROPRIETARY FUNDS

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 7

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

	Enterprise Funds			Totals	Internal Service Fund
	Nursing Home	Itasca Medical Care	Itasca Resource Center		
Assets					
Current assets					
Cash and pooled investments	\$ -	\$ 6,941,812	\$ 552,418	\$ 7,494,230	\$ 3,478,221
Petty cash and change funds	1,021	-	-	1,021	-
Accounts receivable - net	1,121,107	901,729	9,756	2,032,592	9,651
Accrued interest receivable	-	-	-	-	488
Due from other funds	-	-	299,082	299,082	-
Inventories	38,526	-	-	38,526	-
Prepaid items	98,063	-	24,820	122,883	-
Total current assets	\$ 1,258,717	\$ 7,843,541	\$ 886,076	\$ 9,988,334	\$ 3,488,360
Restricted assets					
Cash and pooled investments	\$ 717,604	\$ -	\$ -	\$ 717,604	\$ -
Due from unrestricted cash	68,353	-	-	68,353	-
Accrued interest receivable	2,489	-	-	2,489	-
Resident trust funds	18,196	-	-	18,196	-
Total restricted assets	\$ 806,642	\$ -	\$ -	\$ 806,642	\$ -
Noncurrent assets					
Deferred debt issue costs	\$ 140,817	\$ -	\$ -	\$ 140,817	\$ -
Capital assets					
Depreciable - net	8,386,237	-	1,823,463	10,209,700	-
Total noncurrent assets	\$ 8,527,054	\$ -	\$ 1,823,463	\$ 10,350,517	\$ -
Total Assets	\$ 10,592,413	\$ 7,843,541	\$ 2,709,539	\$ 21,145,493	\$ 3,488,360
Liabilities					
Current liabilities					
Accounts payable	\$ 156,101	\$ 462,470	\$ 439	\$ 619,010	\$ 2,466
Chemical dependency payable	-	132,864	-	132,864	-
Salaries payable	52,925	154,333	-	207,258	2,024
Compensated absences payable - current	292,650	-	-	292,650	-
Claims and judgments payable - current	-	2,573,320	-	2,573,320	-
Contracts payable	190,730	-	-	190,730	-
Due to restricted bond sinking account	68,353	-	-	68,353	-
Due to other governments	-	-	-	-	24,342
Total current liabilities	\$ 760,759	\$ 3,322,987	\$ 439	\$ 4,084,185	\$ 28,832

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 7
(Continued)**

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

	Enterprise Funds			Totals	Internal Service Fund
	Nursing Home	Itasca Medical Care	Itasca Resource Center		
Liabilities					
(Continued)					
Current liabilities payable from restricted assets					
Contracts payable	\$ 17,179	\$ -	\$ -	\$ 17,179	\$ -
Interest payable	53,407	-	-	53,407	-
Due to residents	18,196	-	-	18,196	-
Refunding bonds payable - current	155,000	-	-	155,000	-
Revenue bonds payable - current	70,000	-	-	70,000	-
Total current liabilities payable from restricted assets	\$ 313,782	\$ -	\$ -	\$ 313,782	\$ -
Noncurrent liabilities					
Compensated absences payable	\$ 444,851	\$ -	\$ -	\$ 444,851	\$ -
Claims and judgments payable	-	-	-	-	399,364
Refunding bonds payable	1,298,841	-	-	1,298,841	-
Provider settlements	-	1,654,781	-	1,654,781	-
Revenue bonds payable	4,365,000	-	-	4,365,000	-
Total noncurrent liabilities	\$ 6,108,692	\$ 1,654,781	\$ -	\$ 7,763,473	\$ 399,364
Total Liabilities	\$ 7,183,233	\$ 4,977,768	\$ 439	\$ 12,161,440	\$ 428,196
Net Assets					
Invested in capital assets - net of related debt	\$ 2,649,355	\$ -	\$ 1,823,463	\$ 4,472,818	\$ -
Restricted for					
Debt service	385,223	-	-	385,223	-
Other purposes	58,811	-	-	58,811	-
Unrestricted	315,791	2,865,773	885,637	4,067,201	3,060,164
Total Net Assets	\$ 3,409,180	\$ 2,865,773	\$ 2,709,100	\$ 8,984,053	\$ 3,060,164

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Enterprise Funds				Internal Service Fund
	Nursing Home	Itasca Medical Care	Itasca Resource Center	Totals	
Operating Revenues					
Charges for services	\$ -	\$ -	\$ 419,951	\$ 419,951	\$ -
Patient services revenues	6,271,842	-	-	6,271,842	-
Insurance dividends	-	-	-	-	172,424
Miscellaneous	740,459	862,206	-	1,602,665	378,327
Capitation revenue	-	19,070,357	-	19,070,357	-
Prior year settlement	-	650,000	-	650,000	-
Total Operating Revenues	\$ 7,012,301	\$ 20,582,563	\$ 419,951	\$ 28,014,815	\$ 550,751
Operating Expenses					
Capitation expense	\$ -	\$ 516,071	\$ -	\$ 516,071	\$ -
Other medical expense	-	1,308,276	-	1,308,276	-
Pharmacy claims expense	-	4,334,123	-	4,334,123	-
Medical claims expense	-	12,706,840	-	12,706,840	-
Employee benefits and payroll taxes	904,379	-	-	904,379	-
Professional services	-	-	160,592	160,592	22,712
Nursing services	2,410,774	-	-	2,410,774	-
Plant operations	765,550	-	-	765,550	-
Claims paid	-	-	-	-	272,607
Administration and fiscal services	651,073	1,717,253	-	2,368,326	-
Other care-related	274,548	-	-	274,548	-
Other services and charges	324,515	-	-	324,515	1,878
Supplies	-	-	7,497	7,497	1,719
Payroll	-	-	-	-	37,463
Employee benefits	-	-	-	-	9,953
Travel	-	-	-	-	448
Telephone	-	-	8,274	8,274	169
Utilities	-	-	50,796	50,796	-
Fuel	-	-	13,538	13,538	-
Insurance	-	-	-	-	67,457
Staff training	-	-	-	-	2,963
Licenses and dues	-	-	-	-	1,255
Postage	-	-	-	-	86
Vehicle expense	-	-	-	-	315
Other property and related costs	61,204	-	-	61,204	-
Laundry	105,376	-	-	105,376	-
Dietary	741,673	-	-	741,673	-
Housekeeping	151,355	-	-	151,355	-
Amortization	7,486	-	-	7,486	-
Depreciation	273,435	-	223,498	496,933	-
Repairs	-	-	11,031	11,031	-
Total Operating Expenses	\$ 6,671,368	\$ 20,582,563	\$ 475,226	\$ 27,729,157	\$ 419,025
Operating Income (Loss)	\$ 340,933	\$ -	\$ (55,275)	\$ 285,658	\$ 131,726

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

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 8
(Continued)**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Enterprise Funds			Totals	Internal Service Fund
	Nursing Home	Itasca Medical Care	Itasca Resource Center		
Nonoperating Revenues (Expenses)					
Intergovernmental	\$ 31,690	\$ -	\$ -	\$ 31,690	\$ -
Interest income	23,468	94,387	-	117,855	39,860
Contributions and donations	22,257	-	-	22,257	-
Interest expense	(214,410)	-	-	(214,410)	-
Total Nonoperating Revenues (Expenses)	\$ (136,995)	\$ 94,387	\$ -	\$ (42,608)	\$ 39,860
Change in net assets	\$ 203,938	\$ 94,387	\$ (55,275)	\$ 243,050	\$ 171,586
Net Assets - Beginning	3,205,242	2,771,386	2,764,375	8,741,003	2,888,578
Net Assets - Ending	\$ 3,409,180	\$ 2,865,773	\$ 2,709,100	\$ 8,984,053	\$ 3,060,164

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004
Increase (Decrease) in Cash and Cash Equivalents**

	Enterprise Funds			Totals	Internal Service Fund
	Nursing Home	Itasca Medical Care	Itasca Resource Center		
Cash Flows from Operating Activities					
Receipts from customers and users	\$ 6,427,013	\$ -	\$ 410,195	\$ 6,837,208	\$ -
Receipts from internal services provided	-	-	-	-	390,803
Receipts from capitation and other	-	20,582,563	-	20,582,563	-
Receipts from other operating revenue	-	-	-	-	172,424
Payments to suppliers	(3,532,997)	-	(410,195)	(3,943,192)	(491,720)
Payments to employees	(3,224,382)	-	-	(3,224,382)	(49,548)
Payments to providers, suppliers, and employees	-	(21,134,059)	-	(21,134,059)	-
Net cash provided by (used in) operating activities	\$ (330,366)	\$ (551,496)	\$ -	\$ (881,862)	\$ 21,959
Cash Flows from Noncapital Financing Activities					
Contributions and donations	\$ 22,257	\$ -	\$ -	\$ 22,257	\$ -
Operating grants	416	-	-	416	-
Nursing Home payment adjustment received	14,030	-	-	14,030	-
Net cash provided by (used in) noncapital financing activities	\$ 36,703	\$ -	\$ -	\$ 36,703	\$ -
Cash Flows from Capital and Related Financing Activities					
Blandin Foundation bond revenue	\$ 104,016	\$ -	\$ -	\$ 104,016	\$ -
Acquisition of capital assets	(3,917,577)	-	-	(3,917,577)	-
Principal and interest paid on general obligation revenue bonds	(220,745)	-	-	(220,745)	-
Interest paid on revenue bonds	(231,848)	-	-	(231,848)	-
Bond issuance costs	(13,387)	-	-	(13,387)	-
Net cash provided by (used in) capital and related financing activities	\$ (4,279,541)	\$ -	\$ -	\$ (4,279,541)	\$ -
Cash Flows from Investing Activities					
Interest received	\$ 23,462	\$ 94,387	\$ -	\$ 117,849	\$ 39,913
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (4,549,742)	\$ (457,109)	\$ -	\$ (5,006,851)	\$ 61,872
Cash and Cash Equivalents at January 1	5,268,367	7,398,921	552,418	13,219,706	3,416,349
Cash and Cash Equivalents at December 31	\$ 718,625	\$ 6,941,812	\$ 552,418	\$ 8,212,855	\$ 3,478,221

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

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004
Increase (Decrease) in Cash and Cash Equivalents**

	Enterprise Funds			Totals	Internal Service Fund
	Nursing Home	Itasca Medical Care	Itasca Resource Center		
Cash and Cash Equivalents - Exhibit 7					
Cash and pooled investments	\$ -	\$ 6,941,812	\$ 552,418	\$ 7,494,230	\$ 3,478,221
Petty cash and change funds	1,021	-	-	1,021	-
Restricted cash and pooled investments	717,604	-	-	717,604	-
Total Cash and Cash Equivalents	<u>\$ 718,625</u>	<u>\$ 6,941,812</u>	<u>\$ 552,418</u>	<u>\$ 8,212,855</u>	<u>\$ 3,478,221</u>
Reconciliation of operating income to net cash provided by (used in) operating activities					
Operating income (loss)	<u>\$ 340,933</u>	<u>\$ -</u>	<u>\$ (55,275)</u>	<u>\$ 285,658</u>	<u>\$ 131,726</u>
Adjustments to reconcile operating income to net cash provided by (used in) operating activities					
Depreciation expense	\$ 273,435	\$ -	\$ 223,498	\$ 496,933	\$ -
Amortization expense	7,486	-	-	7,486	-
(Increase) decrease in					
Accounts receivable	(585,288)	(418,588)	(9,756)	(1,013,632)	12,476
Due from other funds	-	-	(162,920)	(162,920)	-
Inventories	(3,441)	-	-	(3,441)	-
Prepaid items	(64,741)	-	8,274	(56,467)	-
Increase (decrease) in					
Accounts payable	(166,252)	67,893	(3,821)	(102,180)	(7,175)
Salaries payable	(81,375)	-	-	(81,375)	(2,132)
Compensated absences payable	(96,624)	-	-	(96,624)	-
Accrued vacation payable	45,501	-	-	45,501	-
Due to other funds	-	-	-	-	(40)
Due to other governments	-	-	-	-	2,659
Claims payable	-	(172,146)	-	(172,146)	(115,555)
Other current liabilities	-	(28,655)	-	(28,655)	-
Total adjustments	<u>\$ (671,299)</u>	<u>\$ (551,496)</u>	<u>\$ 55,275</u>	<u>\$ (1,167,520)</u>	<u>\$ (109,767)</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (330,366)</u>	<u>\$ (551,496)</u>	<u>\$ -</u>	<u>\$ (881,862)</u>	<u>\$ 21,959</u>
Noncash Investing, Capital, and Financing Activities					
Acquisition of capital assets in contracts payable	<u>\$ 207,909</u>				

FIDUCIARY FUNDS

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 10

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

	Investment Trust	Agency
<u>Assets</u>		
Cash and cash equivalents	\$ 6,397	\$ 2,453,862
Investments	207,894	-
Receivables		
Interest	1,583	-
Total Assets	\$ 215,874	\$ 2,453,862
<u>Liabilities</u>		
Taxes collected in advance	\$ -	\$ 16,326
Due to other governments	-	2,437,536
Total Liabilities	\$ -	\$ 2,453,862
<u>Net Assets</u>		
Net assets, held in trust for participants	\$ 215,874	

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 11

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Investment Trust</u>
<u>Additions</u>	
Investment earnings	\$ 7,117
<u>Deductions</u>	
Distributions to participants	<u>4,750</u>
Change in net assets	\$ 2,367
Net Assets - Beginning of the Year	<u>213,507</u>
Net Assets - End of the Year	<u><u>\$ 215,874</u></u>

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so.

A. Financial Reporting Entity

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

Blended Component Units

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

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Blended Component Units (Continued)

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

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

Joint Ventures

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

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

Related Organization – A related organization is discussed in Note 5.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.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

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

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

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

The County reports the following major proprietary funds:

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

Additionally, the County reports the following fund types:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2004, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2004 were \$918,298.

Itasca County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

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

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

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

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

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

4. Inventories and Prepaid Items

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

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

**ITASCA COUNTY
GRAND RAPIDS, 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 both government-wide and fund financial statements.

5. Restricted Assets

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

6. Capital Assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the Itasca Nursing Home Enterprise fund had \$108,333 of capitalized interest.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

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

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

7. Compensated Absences

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

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

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

8. Deferred Revenue

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations

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

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

10. Fund Equity

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

11. Use of Estimates

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

2. Reconciliation of Government-Wide and Fund Financial Statements

A. Governmental Fund Balance Sheet and Statement of Net Assets

Exhibit 4 provides a reconciliation between fund balance as reported in the governmental fund balance sheet and net assets--governmental activities as reported in the statement of net assets. One element of that reconciliation is "other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds." The details of this \$5,463,444 are as follows:

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

Deferred revenue	\$ 6,966,386
Due to other governments	<u>1,502,942</u>
Adjustment to increase fund balance to arrive at net assets--governmental activities	<u>\$ 5,463,444</u>

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

Exhibit 6 is a reconciliation between the increase in governmental funds fund balance and the increase in net assets--governmental activities. One element of that increase is "in the funds, under the modified accrual basis, receivables not available for expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues is the increase (decrease) in revenues deferred as unavailable." The details of the \$352,819 adjustment are:

Deferred revenue at December 31, 2004	\$ 6,966,386
Deferred revenue at December 31, 2003	<u>6,468,952</u>
Increase in deferred revenue	\$ 497,434
Less: increase in deferred revenue attributable to forfeited tax sales, reported as due to other governments	<u>(144,615)</u>
Adjustment to change in fund balance to arrive at change in net assets--governmental activities	<u>\$ 352,819</u>

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Cash and pooled investments	\$ 52,817,917
Restricted assets	
Cash and pooled investments	717,604
Fiduciary funds	
Cash and pooled investments	
Investment trust funds	6,397
Agency funds	2,453,862
Investments	
Investment trust funds	207,894
Total Cash and Investments	\$ 56,203,674

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Auditor/Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$51,204,975. The bank balance deposit amount was \$55,175,607. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

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

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 884,800
Collateralized with securities held by the pledging financial institution's agent in the County's name	54,290,807
Total covered deposits	\$ 55,175,607
Uncollateralized	-
Total	\$ 55,175,607

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

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

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

	Category			Fair Value
	1	2	3	
U.S. government securities	\$ 4,932	\$ -	\$ 34,818	\$ 39,750
Negotiable certificates of deposit	888,421	-	3,495,216	4,383,637
Total Investments	\$ 893,353	\$ -	\$ 3,530,034	\$ 4,423,387
Add				
Money market mutual funds				448,567
Deposits				51,204,975
Petty cash and change funds				11,416
Difference in County Nursing Home Enterprise Fund cash from September 30 to December 31, 2004				115,329
Total Cash and Investments				\$ 56,203,674

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2004, for the County's governmental activities and business-type activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 564,050	\$ -
Special assessments	107,768	-
Due from other governments	4,696,094	-
Accounts	4,658,996	-
Interest	149,399	-
Loans	127,000	117,000
Total Governmental Activities	\$ 10,303,307	\$ 117,000
Business-Type Activities		
Accounts	\$ 2,032,592	\$ -

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Governmental Activities

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 676,315	\$ 464,156	\$ 13,803	\$ 1,126,668
Capital assets depreciated				
Buildings	\$ 24,165,228	\$ 77,602	\$ 87,669	\$ 24,155,161
Machinery, furniture, and equipment	14,455,237	798,751	287,135	14,966,853
Infrastructure	99,697,857	6,963,170	-	106,661,027
Total capital assets depreciated	\$ 138,318,322	\$ 7,839,523	\$ 374,804	\$ 145,783,041
Less: accumulated depreciation for				
Buildings	\$ 6,556,284	\$ 560,411	\$ 82,096	\$ 7,034,599
Machinery, furniture, and equipment	7,701,714	1,113,094	226,259	8,588,549
Infrastructure	19,457,738	2,053,841	-	21,511,579
Total accumulated depreciation	\$ 33,715,736	\$ 3,727,346	\$ 308,355	\$ 37,134,727
Total capital assets depreciated, net	\$ 104,602,586	\$ 4,112,177	\$ 66,449	\$ 108,648,314
Governmental Activities Capital Assets, Net	\$ 105,278,901	\$ 4,576,333	\$ 80,252	\$ 109,774,982

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

Business-type capital asset activity for the County Nursing Home at September 30, 2004, and the Itasca Resource Center at December 31, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 279,296	\$ -	\$ -	\$ 279,296
Construction in progress	515,732	-	515,732	-
Total capital assets not depreciated	<u>\$ 795,028</u>	<u>\$ -</u>	<u>\$ 515,732</u>	<u>\$ 279,296</u>
Capital assets depreciated				
Buildings	\$ 9,529,217	\$ 4,011,552	\$ -	\$ 13,540,769
Improvements other than buildings	158,302	-	-	158,302
Machinery, furniture, and equipment	895,699	403,804	-	1,299,503
Total capital assets depreciated	<u>\$ 10,583,218</u>	<u>\$ 4,415,356</u>	<u>\$ -</u>	<u>\$ 14,998,574</u>
Less: accumulated depreciation for				
Buildings	\$ 3,916,907	\$ 437,212	\$ -	\$ 4,354,119
Improvements other than buildings	98,975	4,081	-	103,056
Machinery, furniture, and equipment	555,355	55,640	-	610,995
Total accumulated depreciation	<u>\$ 4,571,237</u>	<u>\$ 496,933</u>	<u>\$ -</u>	<u>\$ 5,068,170</u>
Total capital assets, depreciated, net	<u>\$ 6,011,981</u>	<u>\$ 3,918,423</u>	<u>\$ -</u>	<u>\$ 9,930,404</u>
Business-Type Activities Capital Assets, Net	<u>\$ 6,807,009</u>	<u>\$ 3,918,423</u>	<u>\$ 515,732</u>	<u>\$ 10,209,700</u>

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	178,628
Public safety		374,617
Highways and streets, including depreciation of infrastructure assets		2,930,523
Human services		47,327
Sanitation		96,851
Culture and recreation		48,526
Conservation of natural resources		50,874
Total Depreciation Expense - Governmental Activities	\$	3,727,346
Business-Type Activities		
Nursing Home	\$	273,435
Itasca Resource Center		223,498
Total Depreciation Expense - Business-Type Activities	\$	496,933

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Road and Bridge	\$ 28
	Health and Human Services	138,612
	Forfeited Tax	613,800
	Forest Resources	43
Total Due to General Fund		\$ 752,483

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Road and Bridge	General	\$ 54,356
	Unorganized Towns Road and Bridge	495,137
	Solid Waste Management	<u>1,401</u>
Total Due to Road and Bridge Fund		<u>\$ 550,894</u>
Health and Human Services	General	<u>\$ 8,971</u>
Forest Resources	Forfeited Tax	<u>\$ 2,037,735</u>
Unorganized Towns Road and Bridge	Forfeited Tax	<u>\$ 130,576</u>
Capital Projects	General	\$ 193
	Road and Bridge	1
	Forest Resources	<u>3</u>
Total Due to Capital Projects		<u>\$ 197</u>
Itasca Resource Center	Health and Human Services	<u>\$ 299,082</u>
Total Due To/From Other Funds		<u>\$ 3,779,938</u>

2. Interfund Transfers

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

Transfers to General Fund from other governmental funds		
Forfeited Tax Fund	\$ 613,800	Distribute net proceeds
Nonmajor governmental fund	<u>74,047</u>	Provide funding
Transfers to General Fund	<u>\$ 687,847</u>	

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

2. Interfund Transfers (Continued)

Transfers to Health and Human Services Fund from other governmental funds	\$ 31,150	Provide funding
Transfers to nonmajor governmental funds from		
General Fund	\$ 3,158,944	Provide funding
Road and Bridge	50,000	Provide funding
Forfeited Tax Fund	831,556	Distribution of funds
Other nonmajor governmental funds	<u>47,832</u>	Provide funding
Total transfers to nonmajor governmental funds	<u>\$ 4,088,332</u>	
Total Interfund Transfers	<u><u>\$ 4,807,329</u></u>	

C. Liabilities

1. Payables

Payables at December 31, 2004 were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts	\$ 1,808,294	\$ 619,010
Severance	83,718	-
Chemical dependency	-	132,864
Salaries	989,047	207,258
Escheat property	16,631	-
Contracts	501,275	190,730
Due to other governments	2,856,351	-
Claims and judgments	<u>-</u>	<u>2,573,320</u>
Total Payables	<u><u>\$ 6,255,316</u></u>	<u><u>\$ 3,723,182</u></u>

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Other Post-Employment Benefits

Retirees

In addition to the benefits described in the Pension Plan note, the County provides post-employment health care benefits, in accordance with state statutes, to all County employees who retire from the County and meet age and years of service requirements. Currently, 183 retirees meet these eligibility requirements. The County pays 100 percent of single and 50 percent of dependent health insurance premiums for eligible retirees. Employees hired after January 1, 2000, are limited to \$20,000 maximum for retirement health insurance premiums. The County contributes various amounts toward retirees' medical insurance costs depending on retirees' ages and coverage. Expenditures for post-employment health care benefits, recognized as medical insurance premiums, are incurred by the County. During the year, expenditures of \$981,139 and \$245,690 from the Severance Pay Special Revenue Fund and the Health and Human Services Special Revenue Fund, respectively, were recognized for post-employment health care; expense of \$104,916 was recognized from the County Nursing Home Enterprise Fund.

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Governmental Activities

<u>Types of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
General Obligation Bonds					
2002 G.O. Capital Improvement Bonds	2017	\$220,000 - \$835,000	2.50 - 4.80	\$ 8,300,000	\$ 8,080,000
2003 Law Enforcement Refunding Bond	2006	\$620,000 - \$640,000	1.20 - 1.70	<u>1,890,000</u>	<u>1,270,000</u>
Total General Obligation Bonds				<u>\$ 10,190,000</u>	<u>\$ 9,350,000</u>

Business-Type Activities

<u>Types of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance September 30, 2004</u>
General Obligation Bonds					
1998 G.O. Crossover Refunding bonds	2012	\$135,000 - \$210,000	4.10 - 4.85	\$ 1,880,000	\$ 1,455,000
2003 Gross Revenue Nursing Home Bonds	2033	\$70,000 - \$305,000	2.50 - 6.25	<u>4,435,000</u>	<u>4,435,000</u>
Total General Obligation Bonds				<u>\$ 6,315,000</u>	\$ 5,890,000
Less: unamortized discount					<u>(1,159)</u>
Total General Obligation Bonds, net					<u>\$ 5,888,841</u>

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

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

Governmental Activities

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 1,090,000	\$ 340,328
2006	1,120,000	316,128
2007	500,000	294,382
2008	525,000	276,045
2009	550,000	255,745
2010-2014	3,195,000	911,054
2015-2017	2,370,000	173,030
Total	<u>\$ 9,350,000</u>	<u>\$ 2,566,712</u>

Business-Type Activities

<u>Year Ending September 30</u>	<u>General Obligation Crossover Refunding Bonds</u>		<u>Gross Revenue Nursing Home Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 155,000	\$ 64,110	\$ 70,000	\$ 252,050
2006	160,000	57,140	75,000	250,050
2007	170,000	49,755	75,000	247,612
2008	175,000	41,905	80,000	244,700
2009	185,000	33,532	80,000	241,400
2010 - 2014	610,000	44,700	465,000	1,145,446
2015 - 2019	-	-	605,000	1,008,528
2020 - 2024	-	-	800,000	805,381
2025 - 2029	-	-	1,070,000	521,288
2030 - 2033	-	-	1,115,000	144,531
Total	<u>\$ 1,455,000</u>	<u>\$ 291,142</u>	<u>\$ 4,435,000</u>	<u>\$ 4,860,986</u>

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 10,410,000	\$ -	\$ 1,060,000	\$ 9,350,000	\$ 1,090,000
Compensated absences	5,603,151	29,613	-	5,632,764	-
Claims and judgments	514,919	156,764	272,319	399,364	-
Governmental Activity Long-Term Liabilities	<u>\$ 16,528,070</u>	<u>\$ 186,377</u>	<u>\$ 1,332,319</u>	<u>\$ 15,382,128</u>	<u>\$ 1,090,000</u>

Long-term liabilities for internal service funds are included as part of the above totals. For the internal service fund, \$399,364 of claims and judgments payable are included in the amounts for the governmental activities at year-end.

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 1,605,000	\$ -	\$ 150,000	\$ 1,455,000	\$ 155,000
Gross revenue bonds	4,435,000	-	-	4,435,000	70,000
Less: deferred amounts for issuance discounts	(1,307)	-	(148)	(1,159)	-
Total bonds payable	\$ 6,038,693	\$ -	\$ 149,852	\$ 5,888,841	\$ 225,000
Compensated absences	788,624	-	51,123	737,501	292,650
Provider settlements	2,349,111	-	694,330	1,654,781	-
Business-Type Activity Long-Term Liabilities	<u>\$ 9,176,428</u>	<u>\$ -</u>	<u>\$ 895,305</u>	<u>\$ 8,281,123</u>	<u>\$ 517,650</u>

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Conduit Debt

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

7. Itasca Medical Care (IMCare) Liabilities

Claims Payable

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

	2004	2003
Balance, Beginning of Year	\$ 2,051,136	\$ 1,840,296
Amount incurred, related to		
Prior years	(394,900)	(427,608)
Current year	19,260,210	18,816,478
Amount paid, related to		
Prior years	(1,618,094)	(1,306,672)
Current year	(16,725,032)	(16,871,358)
Balance, End of Year	\$ 2,573,320	\$ 2,051,136

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

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

Provider Settlement

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

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the web at 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.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

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

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

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

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

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2004	\$ 998,512	\$ 325,112	\$ 6,860
2003	949,485	308,008	6,507
2002	924,961	303,224	1,069

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Pension Plans (Continued)

B. Defined Contribution Plan

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

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

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

The County's contributions for the years ending December 31, 2004, 2003, and 2002, were \$10,216, \$9,342, and \$7,541, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

The County's Risk Management Internal Service Fund is used to manage the worker's compensation claims which are self insured by the County. Premiums are paid into the Risk Management Internal Services Fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. The County has not had an actuarial study to determine a claims liability for workers' compensation, but the claims administrator, a private company has estimated a liability of \$399,364, which does not include incurred but not reported claims, at December 31, 2004. This amount is shown as a liability in the Risk Management Internal Service Fund. The County is a member of the Workers' Compensation Reinsurance Association. Under the plan, the County is liable for the first \$360,000 toward any claim arising from a single occurrence. The Association covers claims over \$360,000.

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

	Year Ended December 31	
	2004	2003
Unpaid Claims, Beginning of Fiscal Year	\$ 514,919	\$ 537,902
Incurred claims	156,764	162,328
Claims payments	(272,319)	(185,311)
Unpaid Claims, End of Fiscal Year	\$ 399,364	\$ 514,919

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

5. 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. Joint Ventures

Itasca County-Grand Rapids Airport Commission

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

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

A summary of the financial information of the Itasca County-Grand Rapids Airport Commission for the year ended December 31, 2003, (the most recent information available) was:

Long-Term Debt	\$	545,770
Fund Equity		5,232,551
Revenues Over (Under) Expenditures		50,291

Itasca County contributed \$90,000 during 2004 to the Itasca County-Grand Rapids Airport Commission.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Itasca County-Grand Rapids Airport Commission (Continued)

Separate financial information can be obtained from:

City of Grand Rapids Financial Director
City Hall
Grand Rapids, Minnesota 55744

Community Health Services Board

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

The CHS Board is composed of two members from Aitkin and Koochiching Counties and three members from Itasca County, each appointed by the participating counties. Funding is obtained through federal, state, local, and private sources. Itasca County receives all funds and appropriates to each county its share through its Agency Fund. Itasca County records its revenues and expenditures in the Health and Human Services Special Revenue Fund. CHS Agency Fund assets and liabilities were \$101,925 as of December 31, 2004.

No separate financial statements are available.

Northeast Minnesota Office of Job Training

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

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

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

At fiscal year-end June 30, 2004, the Northeast Minnesota Office of Job Training had net assets of \$1,382,550 and long-term debt of \$758,370. The change in net assets \$394,478 for the year ended June 30, 2004.

Separate financial information can be obtained from:

Northeast Minnesota Office of Job Training
820 North Ninth Street
Suite 200
Virginia, Minnesota 55792

Minnesota Counties Information Systems

The County entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, creating and operating Minnesota Counties Information Systems (MCIS). MCIS operates and maintains data processing facilities and management information systems for the benefit of members of this agreement.

MCIS is governed by an 11-member board. Each participating County appoints a member. Financing is obtained through user charges to the members. Cass County is the fiscal agent for MCIS.

Each county's share of the assets and liabilities cannot be accurately determined since it will depend on the number of counties that are members when the agreement is dissolved.

At December 31, 2002 (the most recent information available), MCIS had fund equity of \$310,874. Expenditures were greater than revenues by \$43,531 in 2002.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Minnesota Counties Information Systems (Continued)

Separate financial information can be obtained from:

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

Mississippi Headwaters Board

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

The Mississippi Headwaters Board consists of eight members, one appointed from each participating county. Cass County maintains the accounting records of the Board. Funding is obtained through federal, state, local, and private sources. Itasca County provided \$1,500 to this organization during 2004.

Complete financial information can be obtained from:

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

Itasca County Family Service Collaborative

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Itasca County Family Service Collaborative (Continued)

Control of the Collaborative is vested in a Board of Directors. The County has three members on the Board. Financing is provided by state and federal grants, appropriations from the Collaborative members, and miscellaneous revenues. Itasca County provided \$2,000 in funding to the Collaborative during 2004. Itasca County is the fiscal agent for the Collaborative, which is accounted for as an agency fund. Collaborative Agency Fund assets and liabilities were \$450,209 as of December 31, 2004.

No separate financial statements are available.

D. Jointly-Governed Organizations

Western Mesabi Mine Planning Board

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

During 2004, there were no related-party transactions between Itasca County and the Western Mesabi Mine Planning Board.

KOOTASCA Community Action, Inc.

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

During 2004, there were no related-party transactions between Itasca County and KOOTASCA Community Action, Inc.

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Becker, Beltrami, Clay, Clearwater, Itasca, Kittson, Lake, Lake of the Woods, Mahnommen, Marshall, McLeod, Morrison, Norman, Pennington, Polk, Red Lake, and Roseau

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Minnesota Rural Counties Caucus (Continued)

Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee composed of ten directors, each with an alternate, who are appointed annually by each respective county board. Itasca County paid \$2,000 for membership dues in 2004.

South Central Itasca County Intergovernmental Planning Board

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

The Planning Board is governed by an eight-member board. Each entity appoints one representative to the Board. Financing is provided by grants. Itasca County provided no funding to this Board in 2004.

E. Related Organization

Housing and Redevelopment Authority of Itasca County

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

F. Tax-Forfeited Land

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

REQUIRED SUPPLEMENTARY INFORMATION

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 8,054,284	\$ 8,054,284	\$ 7,910,936	\$ (143,348)
Licenses and permits	46,000	46,000	52,050	6,050
Intergovernmental	4,289,179	4,289,179	5,620,474	1,331,295
Charges for services	829,416	829,416	1,091,413	261,997
Fines and forfeits	31,400	31,400	55,550	24,150
Gifts and contributions	500	500	3,230	2,730
Investment earnings	700,000	700,000	664,731	(35,269)
Miscellaneous	272,700	272,700	723,759	451,059
Total Revenues	\$ 14,223,479	\$ 14,223,479	\$ 16,122,143	\$ 1,898,664
Expenditures				
Current				
General government				
Commissioners	\$ 335,952	\$ 335,952	\$ 335,801	\$ 151
Courts	89,174	89,174	75,470	13,704
Law library	59,700	59,700	50,442	9,258
County administration	446,064	446,064	394,050	52,014
County auditor	989,698	989,698	982,496	7,202
County assessor	802,353	802,353	780,036	22,317
Elections	128,525	128,525	121,406	7,119
Accounting and auditing	60,000	60,000	58,061	1,939
Data processing	605,676	605,676	581,180	24,496
Attorney	941,100	941,100	946,023	(4,923)
Recorder	400,064	400,064	382,312	17,752
Surveyor	433,790	433,790	410,375	23,415
Planning and zoning	421,203	421,203	342,192	79,011
Buildings and plant	598,433	598,433	687,361	(88,928)
Veterans service officer	151,174	151,174	142,889	8,285
Total general government	\$ 6,462,906	\$ 6,462,906	\$ 6,290,094	\$ 172,812
Public safety				
Sheriff	\$ 3,084,321	\$ 3,084,321	\$ 3,110,467	\$ (26,146)
Boat and water safety	110,149	110,149	86,755	23,394
Emergency services	54,800	54,800	39,714	15,086
Coroner	31,863	31,863	47,835	(15,972)
Federal arrest grant	-	-	76,599	(76,599)
E-911 system	30,000	30,000	46,021	(16,021)
County jail	2,606,146	2,606,146	2,605,479	667
Victim assistance	59,963	59,963	219,179	(159,216)
Probation and parole	831,658	831,658	801,987	29,671
Civil defense	141,375	141,375	150,892	(9,517)
Safehavens grant	-	-	161,173	(161,173)
Snowmobile safety	12,300	12,300	17,972	(5,672)
Other public safety	6,000	6,000	24,888	(18,888)
Total public safety	\$ 6,968,575	\$ 6,968,575	\$ 7,388,961	\$ (420,386)

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**Schedule 1
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Health				
Itasca County health network	\$ -	\$ -	\$ 158,657	\$ (158,657)
Culture and recreation				
Historical society	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Fairgrounds	30,000	30,000	30,000	-
Humane society	20,000	20,000	5,169	14,831
Snowmobile and ski trail maintenance	6,000	6,000	284,697	(278,697)
Other	7,000	7,000	7,000	-
Total culture and recreation	\$ 83,000	\$ 83,000	\$ 346,866	\$ (263,866)
Conservation of natural resources				
County extension	\$ 92,071	\$ 92,071	\$ 75,329	\$ 16,742
Soil and water conservation	100,000	100,000	100,000	-
Shoreland management	1,612	1,612	13,014	(11,402)
Other	2,450	2,450	89,467	(87,017)
Total conservation of natural resources	\$ 196,133	\$ 196,133	\$ 277,810	\$ (81,677)
Economic development				
Airports	\$ 95,000	\$ 95,000	\$ 95,000	\$ -
Total Expenditures	\$ 13,805,614	\$ 13,805,614	\$ 14,557,388	\$ (751,774)
Excess of Revenues Over (Under) Expenditures	\$ 417,865	\$ 417,865	\$ 1,564,755	\$ 1,146,890
Other Financing Sources (Uses)				
Transfers in	\$ 699,500	\$ 699,500	\$ 687,847	\$ (11,653)
Transfers out	(1,100,535)	(1,100,535)	(3,163,784)	(2,063,249)
Total Other Financing Sources (Uses)	\$ (401,035)	\$ (401,035)	\$ (2,475,937)	\$ (2,074,902)
Net Change in Fund Balance	\$ 16,830	\$ 16,830	\$ (911,182)	\$ (928,012)
Fund Balance - January 1	11,145,994	11,145,994	11,145,994	-
Increase (decrease) in reserved for inventories	-	-	(8,968)	(8,968)
Fund Balance - December 31	\$ 11,162,824	\$ 11,162,824	\$ 10,225,844	\$ (936,980)

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 5,277,851	\$ 5,277,851	\$ 5,436,538	\$ 158,687
Intergovernmental	7,370,535	7,370,535	11,464,540	4,094,005
Charges for services	798,000	798,000	1,026,992	228,992
Miscellaneous	51,600	51,600	351,222	299,622
Total Revenues	\$ 13,497,986	\$ 13,497,986	\$ 18,279,292	\$ 4,781,306
Expenditures				
Current				
Highways and streets				
Administration	\$ 424,189	\$ 424,189	\$ 521,405	\$ (97,216)
Maintenance	5,869,687	5,869,687	5,684,714	184,973
Construction	3,958,318	3,958,318	7,762,102	(3,803,784)
Equipment maintenance and shop	3,245,792	3,245,792	3,096,107	149,685
Total highways and streets	\$ 13,497,986	\$ 13,497,986	\$ 17,064,328	\$ (3,566,342)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 1,214,964	\$ 1,214,964
Other Financing Sources (Uses)				
Transfers out	-	-	(50,000)	(50,000)
Net Change in Fund Balance	\$ -	\$ -	\$ 1,164,964	\$ 1,164,964
Fund Balance - January 1	6,083,150	6,083,150	6,083,150	-
Increase (decrease) in reserved for inventories	-	-	53,179	53,179
Fund Balance - December 31	\$ 6,083,150	\$ 6,083,150	\$ 7,301,293	\$ 1,218,143

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 5,872,527	\$ 5,872,527	\$ 4,785,338	\$ (1,087,189)
Intergovernmental	9,322,984	9,322,984	9,556,478	233,494
Charges for services	2,027,500	2,027,500	1,192,092	(835,408)
Miscellaneous	187,000	187,000	360,456	173,456
Total Revenues	\$ 17,410,011	\$ 17,410,011	\$ 15,894,364	\$ (1,515,647)
Expenditures				
Current				
Human services				
Income maintenance	\$ 3,390,589	\$ 3,390,589	\$ 2,588,759	\$ 801,830
Social services	12,768,256	12,768,256	12,543,063	225,193
Total human services	\$ 16,158,845	\$ 16,158,845	\$ 15,131,822	\$ 1,027,023
Health				
Nursing service	\$ 1,276,166	\$ 1,276,166	\$ 1,270,608	\$ 5,558
Environmental health	-	-	6,318	(6,318)
Total health	\$ 1,276,166	\$ 1,276,166	\$ 1,276,926	\$ (760)
Total Expenditures	\$ 17,435,011	\$ 17,435,011	\$ 16,408,748	\$ 1,026,263
Excess of Revenues Over (Under) Expenditures	\$ (25,000)	\$ (25,000)	\$ (514,384)	\$ (489,384)
Other Financing Sources (Uses)				
Transfers in	25,000	25,000	31,150	6,150
Net Change in Fund Balance	\$ -	\$ -	\$ (483,234)	\$ (483,234)
Fund Balance - January 1	2,508,195	2,508,195	2,508,195	-
Fund Balance - December 31	\$ 2,508,195	\$ 2,508,195	\$ 2,024,961	\$ (483,234)

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

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

1. Budgetary Information

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

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

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

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2004, expenditures exceeded appropriations in the following funds:

General Fund	\$ 751,774	Expenditures for ski and snowmobile trails and for several large federal grants in public safety are not budgeted. These expenditures are equally offset by intergovernmental revenues.
Road and Bridge	3,566,342	Higher than anticipated construction expenditures, offset by higher intergovernmental revenues.
Solid Waste Management	99,695	Higher than anticipated expenditures.

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SUPPLEMENTARY INFORMATION

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

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

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

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

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

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

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

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

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Statement 1

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

	<u>Special Revenue (Statement 3)</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds (Exhibit 3)</u>
<u>Assets</u>				
Cash and pooled investments	\$ 5,017,681	\$ 1,666,126	\$ 4,860,455	\$ 11,544,262
Petty cash and change funds	325	-	-	325
Undistributed cash in agency funds	62,920	67,560	-	130,480
Taxes receivable				
Prior	20,910	36,302	-	57,212
Special assessments receivable				
Prior	107,768	-	-	107,768
Accounts receivable	62,618	-	8	62,626
Due from other funds	2,168,311	-	197	2,168,508
Due from other governments	23	-	-	23
Loans receivable	-	-	127,000	127,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 7,440,556</u>	<u>\$ 1,769,988</u>	<u>\$ 4,987,660</u>	<u>\$ 14,198,204</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 271,796	\$ -	\$ 17,403	\$ 289,199
Severance payable	83,718	-	-	83,718
Salaries payable	37,170	-	-	37,170
Due to other funds	496,584	-	-	496,584
Due to other governments	25	-	-	25
Deferred revenue - unavailable	128,678	36,302	127,000	291,980
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>\$ 1,017,971</u>	<u>\$ 36,302</u>	<u>\$ 144,403</u>	<u>\$ 1,198,676</u>
 Fund Balances				
Unreserved				
Designated for debt service	\$ -	\$ 1,733,686	\$ -	\$ 1,733,686
Designated for severance	228,998	-	-	228,998
Undesignated	6,193,587	-	4,843,257	11,036,844
	<hr/>	<hr/>	<hr/>	<hr/>
Total Fund Balances	<u>\$ 6,422,585</u>	<u>\$ 1,733,686</u>	<u>\$ 4,843,257</u>	<u>\$ 12,999,528</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	<u>\$ 7,440,556</u>	<u>\$ 1,769,988</u>	<u>\$ 4,987,660</u>	<u>\$ 14,198,204</u>

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Statement 2

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

	Special Revenue (Statement 4)	Debt Service	Capital Projects	Total Nonmajor Governmental Funds (Exhibit 5)
Revenues				
Taxes	\$ 665,498	\$ 1,229,332	\$ -	\$ 1,894,830
Special assessments	895,988	-	-	895,988
Licenses and permits	250	-	-	250
Intergovernmental	437,796	281,746	-	719,542
Charges for services	594,279	-	19,623	613,902
Investment earnings	12,426	-	-	12,426
Miscellaneous	25,060	-	414,334	439,394
Total Revenues	\$ 2,631,297	\$ 1,511,078	\$ 433,957	\$ 4,576,332
Expenditures				
Current				
General government	\$ 295,886	\$ -	\$ 541,593	\$ 837,479
Public safety	316,074	-	-	316,074
Highways and streets	980,197	-	5,939	986,136
Sanitation	1,498,394	-	-	1,498,394
Health	-	-	70,614	70,614
Culture and recreation	403,280	-	-	403,280
Conservation of natural resources	964,587	-	-	964,587
Debt service				
Principal retirement	-	1,060,000	-	1,060,000
Interest	-	362,176	-	362,176
Administrative (fiscal) charges	-	2,412	-	2,412
Total Expenditures	\$ 4,458,418	\$ 1,424,588	\$ 618,146	\$ 6,501,152
Excess of Revenues Over (Under) Expenditures	\$ (1,827,121)	\$ 86,490	\$ (184,189)	\$ (1,924,820)
Other Financing Sources (Uses)				
Transfers in	\$ 1,785,923	\$ -	\$ 2,302,409	\$ 4,088,332
Transfers out	(62,258)	-	(85,931)	(148,189)
Total Other Financing Sources (Uses)	\$ 1,723,665	\$ -	\$ 2,216,478	\$ 3,940,143
Net Change in Fund Balance	\$ (103,456)	\$ 86,490	\$ 2,032,289	\$ 2,015,323
Fund Balance - January 1	6,526,041	1,647,196	2,810,968	10,984,205
Fund Balance - December 31	\$ 6,422,585	\$ 1,733,686	\$ 4,843,257	\$ 12,999,528

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Statement 3

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

	<u>Forest Resources</u>	<u>Solid Waste Management</u>	<u>Unorganized Towns Road and Bridge</u>	<u>Health Education</u>	<u>Severance Pay</u>	<u>Total (Statement 1)</u>
<u>Assets</u>						
Cash and pooled investments	\$ 1,531,596	\$ 427,955	\$ 1,798,536	\$ 1,004,000	\$ 255,594	\$ 5,017,681
Petty cash and change funds	25	300	-	-	-	325
Undistributed cash in agency funds	-	23,979	38,941	-	-	62,920
Taxes receivable						
Prior	-	-	20,910	-	-	20,910
Special assessments receivable						
Prior	-	107,768	-	-	-	107,768
Accounts receivable	-	5,496	-	-	57,122	62,618
Due from other funds	2,037,735	-	130,576	-	-	2,168,311
Due from other governments	-	23	-	-	-	23
Total Assets	<u>\$ 3,569,356</u>	<u>\$ 565,521</u>	<u>\$ 1,988,963</u>	<u>\$ 1,004,000</u>	<u>\$ 312,716</u>	<u>\$ 7,440,556</u>
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 128,638	\$ 143,158	\$ -	\$ -	\$ -	\$ 271,796
Severance payable	-	-	-	-	83,718	83,718
Salaries payable	35,508	1,662	-	-	-	37,170
Due to other funds	46	1,401	495,137	-	-	496,584
Due to other governments	25	-	-	-	-	25
Deferred revenue - unavailable	-	107,768	20,910	-	-	128,678
Total Liabilities	<u>\$ 164,217</u>	<u>\$ 253,989</u>	<u>\$ 516,047</u>	<u>\$ -</u>	<u>\$ 83,718</u>	<u>\$ 1,017,971</u>
Fund Balances						
Unreserved						
Designated for severance	\$ -	\$ -	\$ -	\$ -	\$ 228,998	\$ 228,998
Undesignated	3,405,139	311,532	1,472,916	1,004,000	-	6,193,587
Total Fund Balances	<u>\$ 3,405,139</u>	<u>\$ 311,532</u>	<u>\$ 1,472,916</u>	<u>\$ 1,004,000</u>	<u>\$ 228,998</u>	<u>\$ 6,422,585</u>
Total Liabilities and Fund Balances	<u>\$ 3,569,356</u>	<u>\$ 565,521</u>	<u>\$ 1,988,963</u>	<u>\$ 1,004,000</u>	<u>\$ 312,716</u>	<u>\$ 7,440,556</u>

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Statement 4

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

	<u>Forest Resources</u>	<u>Solid Waste Management</u>	<u>Unorganized Towns Road and Bridge</u>	<u>Health Education</u>	<u>Severance Pay</u>	<u>Total (Statement 2)</u>
Revenues						
Taxes	\$ -	\$ 238	\$ 665,260	\$ -	\$ -	\$ 665,498
Special assessments	-	895,988	-	-	-	895,988
Licenses and permits	-	250	-	-	-	250
Intergovernmental	161,390	100,970	175,436	-	-	437,796
Charges for services	83,132	511,147	-	-	-	594,279
Investment earnings	-	-	-	12,426	-	12,426
Miscellaneous	22,198	2,862	-	-	-	25,060
Total Revenues	\$ 266,720	\$ 1,511,455	\$ 840,696	\$ 12,426	\$ -	\$ 2,631,297
Expenditures						
Current						
General government	\$ -	\$ -	\$ -	\$ -	\$ 295,886	\$ 295,886
Public safety	-	-	-	-	316,074	316,074
Highways and streets	-	-	672,755	-	307,442	980,197
Sanitation	-	1,498,394	-	-	-	1,498,394
Culture and recreation	403,280	-	-	-	-	403,280
Conservation of natural resources	902,850	-	-	-	61,737	964,587
Total Expenditures	\$ 1,306,130	\$ 1,498,394	\$ 672,755	\$ -	\$ 981,139	\$ 4,458,418
Excess of Revenues Over (Under) Expenditures	\$ (1,039,410)	\$ 13,061	\$ 167,941	\$ 12,426	\$ (981,139)	\$ (1,827,121)
Other Financing Sources (Uses)						
Transfers in	\$ 744,980	\$ -	\$ 130,576	\$ -	\$ 910,367	\$ 1,785,923
Transfers out	(47,832)	-	-	(14,426)	-	(62,258)
Total Other Financing Sources (Uses)	\$ 697,148	\$ -	\$ 130,576	\$ (14,426)	\$ 910,367	\$ 1,723,665
Net Change in Fund Balance	\$ (342,262)	\$ 13,061	\$ 298,517	\$ (2,000)	\$ (70,772)	\$ (103,456)
Fund Balance - January 1	3,747,401	298,471	1,174,399	1,006,000	299,770	6,526,041
Fund Balance - December 31	\$ 3,405,139	\$ 311,532	\$ 1,472,916	\$ 1,004,000	\$ 228,998	\$ 6,422,585

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
FOREST RESOURCES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 178,550	\$ 178,550	\$ 161,390	\$ (17,160)
Charges for services	83,600	83,600	83,132	(468)
Miscellaneous	-	-	22,198	22,198
Total Revenues	\$ 262,150	\$ 262,150	\$ 266,720	\$ 4,570
Expenditures				
Current				
Culture and recreation				
Promotion	\$ 125,000	\$ 125,000	\$ 151,500	\$ (26,500)
Parks	277,467	277,467	251,780	25,687
Total culture and recreation	\$ 402,467	\$ 402,467	\$ 403,280	\$ (813)
Conservation of natural resources				
Timber development	\$ 57,500	\$ 57,500	\$ 25,277	\$ 32,223
Other	1,575,415	1,575,415	877,573	697,842
Total conservation of natural resources	\$ 1,632,915	\$ 1,632,915	\$ 902,850	\$ 730,065
Total Expenditures	\$ 2,035,382	\$ 2,035,382	\$ 1,306,130	\$ 729,252
Excess of Revenues Over (Under)				
Expenditures	\$ (1,773,232)	\$ (1,773,232)	\$ (1,039,410)	\$ 733,822
Other Financing Sources (Uses)				
Transfers in	\$ 1,773,232	\$ 1,773,232	\$ 744,980	\$ (1,028,252)
Transfers out	-	-	(47,832)	(47,832)
Total Other Financing Sources (Uses)	\$ 1,773,232	\$ 1,773,232	\$ 697,148	\$ (1,076,084)
Net Change in Fund Balance	\$ -	\$ -	\$ (342,262)	\$ (342,262)
Fund Balance - January 1	3,747,401	3,747,401	3,747,401	-
Fund Balance - December 31	\$ 3,747,401	\$ 3,747,401	\$ 3,405,139	\$ (342,262)

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ -	\$ -	\$ 238	\$ 238
Special assessments	850,000	850,000	895,988	45,988
Licenses and permits	150	150	250	100
Intergovernmental	103,000	103,000	100,970	(2,030)
Charges for services	440,000	440,000	511,147	71,147
Miscellaneous	5,549	5,549	2,862	(2,687)
Total Revenues	\$ 1,398,699	\$ 1,398,699	\$ 1,511,455	\$ 112,756
Expenditures				
Current				
Sanitation				
Solid waste	1,398,699	1,398,699	1,498,394	(99,695)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 13,061	\$ 13,061
Fund Balance - January 1	298,471	298,471	298,471	-
Fund Balance - December 31	\$ 298,471	\$ 298,471	\$ 311,532	\$ 13,061

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 6

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,508,848	\$ 1,508,848	\$ 1,229,332	\$ (279,516)
Intergovernmental	-	-	281,746	281,746
Total Revenues	\$ 1,508,848	\$ 1,508,848	\$ 1,511,078	\$ 2,230
Expenditures				
Debt service				
Principal retirement	\$ 1,060,000	\$ 1,060,000	\$ 1,060,000	\$ -
Interest	397,837	397,837	362,176	35,661
Administrative (fiscal) charges	-	-	2,412	(2,412)
Total Expenditures	\$ 1,457,837	\$ 1,457,837	\$ 1,424,588	\$ 33,249
Excess of Revenues Over (Under) Expenditures	\$ 51,011	\$ 51,011	\$ 86,490	\$ 35,479
Fund Balance - January 1	1,647,196	1,647,196	1,647,196	-
Fund Balance - December 31	\$ 1,698,207	\$ 1,698,207	\$ 1,733,686	\$ 35,479

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FIDUCIARY FUNDS

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

AGENCY FUNDS

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

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Statement 5

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,555,353	\$ 52,862,098	\$ 52,940,454	\$ 1,476,997
<u>Liabilities</u>				
Taxes collected in advance	\$ 21,297	\$ 16,326	\$ 21,297	\$ 16,326
Due to other governments	1,534,056	52,845,772	52,919,157	1,460,671
Total Liabilities	\$ 1,555,353	\$ 52,862,098	\$ 52,940,454	\$ 1,476,997
<u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 201,534	\$ 7,780,612	\$ 7,837,434	\$ 144,712
<u>Liabilities</u>				
Due to other governments	\$ 201,534	\$ 7,780,612	\$ 7,837,434	\$ 144,712
<u>CITIES AND TOWNS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 12,771,908	\$ 12,771,875	\$ 33
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 12,771,908	\$ 12,771,875	\$ 33

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

*Statement 5
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 239,044	\$ 10,947,374	\$ 10,944,266	\$ 242,152
<u>Liabilities</u>				
Due to other governments	\$ 239,044	\$ 10,947,374	\$ 10,944,266	\$ 242,152
 <u>SPECIAL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,362,521	\$ 1,362,521	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,362,521	\$ 1,362,521	\$ -
 <u>ITASCA COUNTY FAMILY SERVICE COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 580,486	\$ 337,927	\$ 468,204	\$ 450,209
<u>Liabilities</u>				
Due to other governments	\$ 580,486	\$ 337,927	\$ 468,204	\$ 450,209

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

*Statement 5
(Continued)*

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>COMMUNITY HEALTH SERVICES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 84,065	\$ 1,106,348	\$ 1,088,488	\$ 101,925
<u>Liabilities</u>				
Due to other governments	\$ 84,065	\$ 1,106,348	\$ 1,088,488	\$ 101,925
 <u>SOUTH CENTRAL ITASCA COUNTY PLANNING BOARD</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 41,638	\$ 6,348	\$ 10,152	\$ 37,834
<u>Liabilities</u>				
Due to other governments	\$ 41,638	\$ 6,348	\$ 10,152	\$ 37,834
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,702,120	\$ 87,175,136	\$ 87,423,394	\$ 2,453,862
<u>Liabilities</u>				
Taxes collected in advance	\$ 21,297	\$ 16,326	\$ 21,297	\$ 16,326
Due to other governments	2,680,823	87,158,810	87,402,097	2,437,536
Total Liabilities	\$ 2,702,120	\$ 87,175,136	\$ 87,423,394	\$ 2,453,862

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OTHER SCHEDULE

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 7

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

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Total Primary Government</u>
Shared Revenue			
State			
Highway users tax	\$ 7,705,321	\$ -	\$ 7,705,321
County program aid	1,452,833	-	1,452,833
PERA rate reimbursement	82,819	-	82,819
Disparity reduction aid	163,228	-	163,228
Police aid	331,286	-	331,286
Taconite credit	586,006	-	586,006
Mobile home taconite credit	3,233	-	3,233
E-911	68,247	-	68,247
Market value credit aid	1,931,383	-	1,931,383
Supplemental aid	1,593,802	-	1,593,802
Mobile home supplemental aid	3,083	-	3,083
Total Shared Revenue	\$ 13,921,241	\$ -	\$ 13,921,241
Reimbursement for Services			
State			
Minnesota Department of Human Services	\$ 3,841,910	\$ -	\$ 3,841,910
Payments			
Local			
Local contributions	\$ 266,594	\$ 17,244	\$ 283,838
Payments in lieu of taxes	478,586	-	478,586
Total Payments	\$ 745,180	\$ 17,244	\$ 762,424
Grants			
State			
Minnesota Department/Board of			
Administration	\$ 207,956	\$ -	\$ 207,956
Corrections	267,555	-	267,555
Public safety	22,033	-	22,033
Health	147,183	-	147,183
Natural Resources	366,790	-	366,790
Human Services	3,445,449	14,030	3,459,479
Soil and Water Resources	13,014	-	13,014
Labor and Industry	-	416	416
Office of Environmental Assistance	100,970	-	100,970
Total State	\$ 4,570,950	\$ 14,446	\$ 4,585,396

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 7
(Continued)

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

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Total Primary Government</u>
Grants (Continued)			
Federal			
Department of			
Agriculture	\$ 429,081	\$ -	\$ 429,081
Interior	210,226	-	210,226
Justice	472,097	-	472,097
Transportation	1,902,228	-	1,902,228
Health and Human Services	1,179,290	-	1,179,290
Homeland Security	88,831	-	88,831
Total Federal	<u>\$ 4,281,753</u>	<u>\$ -</u>	<u>\$ 4,281,753</u>
Total State and Federal Grants	<u>\$ 8,852,703</u>	<u>\$ 14,446</u>	<u>\$ 8,867,149</u>
Total Intergovernmental Revenue	<u>\$ 27,361,034</u>	<u>\$ 31,690</u>	<u>\$ 27,392,724</u>

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 8

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

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Itasca County.
- B. A reportable condition in internal control was disclosed by the audit of financial statements of Itasca County and is reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." It was not a material weakness.
- C. No instances of noncompliance material to the financial statements of Itasca County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Itasca County expresses a qualified opinion.
- F. Findings relative to a major federal award program for Itasca County were reported as required by Section 510(a) of OMB Circular A-133.
- G. The major programs are:
- | | |
|---|--------------|
| Grants to Encourage Arrest Policies | CFDA #16.590 |
| Highway Planning and Construction | CFDA #20.205 |
| National Recreational Trails | CFDA #20.219 |
| Temporary Assistance for Needy Families | CFDA #93.558 |
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Itasca County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-5 Departmental Internal Accounting Controls

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

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

Client's Response:

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

PREVIOUSLY REPORTED ITEM RESOLVED

Disbursements (02-1)

The County Auditor's Office staff was not stamping vendor invoices as paid and did not initial invoices to indicate clerical review. Also, vouchers did not always have authorizing signatures.

Resolution

Invoices are now being stamped as paid, vouchers have authorizing signatures, and invoices are initialed to indicate clerical review.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

A. COMPLIANCE

ITEMS ARISING THIS YEAR

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

Questioned Costs: \$15,560

The County has requested reimbursement from the Federal Arrest Grant for two County Attorney's Office staff working on the grant and one full-time Sheriff's Deputy. The amount charged to the grant is 75 percent of one attorney's salary and 25 percent of the other attorney's salary. The Deputy charges 100 percent of her salary to the grant.

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

We tested eight transactions relating to the County Attorney's Office salaries. The total amount of known questioned costs for attorneys' salaries charged to this grant is \$15,560. The total amount of attorneys' salaries charged to the grant during the audit year 2004 was \$77,098. We have no reason to believe that the untested transactions relating to attorneys' salaries were conducted differently than the transactions tested.

We recommend the County Attorney's Office staff working on this grant document the time spent on the grant to support reimbursement requests. Only the time actually spent on the grant should be charged to the grant.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action

John Muhar, Itasca County Attorney

Corrective Action Planned:

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

Anticipated Completion Date:

September 1, 2005

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

Questioned Costs: \$442

The Advocates for Family Peace are a subgrantee of the County under the Federal Arrest Grant. The Advocates have charged the grant for expenditures relating to the occupancy of a building owned by the Advocates. This monthly charge is based on budgeted cost for mortgage payments, building improvements, utilities, maintenance, and roof replacement. The total budgeted charges for these expenditures are allocated to the grant based on the number of staff allocated to the grant.

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

The Advocates for Family Peace have determined the charge for building occupancy to the Federal Arrest Grant based on budgeted expenditures rather than actual expenditures. We tested one building occupancy transaction. Known questioned costs for the transaction tested are \$442. The calendar year charges to the grant were \$4,035 for the audit year 2004.

We recommend that the County ensure that its subgrantee, the Advocates for Family Peace, determine the actual costs of occupying the building, and allocate these actual costs to the Federal Arrest Grant on an equitable basis.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action

Sandy Pit

Corrective Action Planned:

The Advocates for Family Peace have determined the actual costs for building occupancy for the fiscal year ended June 30, 2005. The actual costs chargeable to the Federal Arrest Grant exceed the amount of costs charged to the grant based on budgeted costs. Documentation is available upon request.

Anticipated Completion Date:

August 10, 2005

B. INTERNAL CONTROL

REVIOUSLY REPORTED ITEM RESOLVED

Temporary Assistance for Needy Families (CFDA #93.558) (03-1)

In our prior year testing of controls over the Temporary Assistance for Needy Families program (TANF), we noted that eight of the 24 payment vouchers chosen for testing did not contain evidence that the vouchers had been reviewed or approved for payment by an authorized individual. Also, our prior review of the quarterly expenditure reports showed that two of the four quarterly reports were not dated, so we were unable to determine whether the reports were submitted timely.

Resolution

During our current audit, we reviewed 40 payment vouchers for this program. All vouchers reviewed were properly approved by authorized individuals. Quarterly reports were dated and submitted timely.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

00-1 Delinquent Taxes

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

We recommend that the County comply with this rule.

Client's Response:

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

ITEM ARISING THIS YEAR

04-3 Bidding

The County Sheriff's Department purchased three squad cars for a total of \$60,492 without advertising for sealed bids as required by Minn. Stat. § 471.345. This statute requires that all contracts estimated to exceed \$50,000 be solicited by public notice. The County Sheriff took quotes for the vehicles instead of advertising for sealed bids.

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

Client's Response:

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

PREVIOUSLY REPORTED ITEM RESOLVED

Prompt Payment of Invoices (03-2)

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

Resolution

In our current audit, we noted only one voucher not paid within the 35-day time period, and it was only slightly late. We do not consider this to be a pervasive problem.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

01-4

Operating Loss

The Itasca Resource Center Enterprise Fund had a net operating loss of \$55,275 for the year ended December 31, 2004.

We recommend that space rental rates be set high enough to recover operating expenses, including depreciation.

Client's Response:

The operating loss is due to the required depreciation expense on land and buildings of approximately \$223,498 in 2004. To cover the cost on 45,214 square feet, the County would have to raise rent by approximately \$5 per square foot to the lessees. We will review depreciation/rent increase options with the County Board.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These statements provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB plans can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage. Also, if retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit rate subsidy is considered an OPEB. In fact, local governments may be required to continue coverage under 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 statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

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

- Determine if the employees are provided OPEB.
- If OPEB exists, will the government advance fund the benefits or pay as you go?
- Will a trust be established to hold assets that may be set aside to fund the OPEB?
- Obtain an actuary to determine the annual costs and liabilities that need to be recognized.

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

OTHER REQUIRED REPORTS

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STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Itasca County

We have audited the financial statements of Itasca County as of and for the year ended December 31, 2004, including the County Nursing Home Enterprise Fund as of and for the year ended September 30, 2004, and have issued our report thereon dated June 20, 2005. We did not audit the financial statements of the Itasca Medical Care Enterprise Fund, which were audited by other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Itasca County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operations that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 96-5.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

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

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: June 20, 2005



PATRICIA ANDERSON
STATE AUDITOR

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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
Isanti County

Compliance

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

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

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

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards

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

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: September 30, 2005

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 9

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	FE-01598-01	\$ 101,464	\$ -
Passed Through Minnesota Department of Finance National Forest Lands Roads/Schools - 25% Payments to States	10.665	300-4000-401	327,617	-
Total U.S. Department of Agriculture			\$ 429,081	\$ -
U.S. Department of the Interior				
Direct				
Payments in Lieu of Taxes	15.226		\$ 210,226	\$ -
U.S. Department of Justice				
Passed Through Minnesota Department of Public Safety				
Juvenile Accountability Incentive Block Grant	16.523	91024	\$ 10,455	\$ -
Victims of Crime Act	16.575	069868	26,582	-
Direct				
Supervised Visitation, Safe Havens for Children	16.527		157,169	157,169
Grants to Encourage Arrest Policies	16.590		277,891	137,218
Total U.S. Department of Justice			\$ 472,097	\$ 294,387
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation				
Highway Planning and Construction	20.205		\$ 1,805,792	\$ -
Recreational Trails Program	20.219		398,051	-
State and Community Highway Safety	20.600		890	-
Total U.S. Department of Transportation			\$ 2,204,733	\$ -
U.S. Department of Health and Human Services				
Passed Through Aitkin-Itasca-Koochiching Community Health Services Board				
Fire Injury Prevention Grant	93.136	PO-H12-19610000029	\$ 7,401	\$ -
Disease Control and Prevention Investigation	93.283	HE-01603-01	56,772	-
Maternal and Child Health	93.994		51,979	-

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**Schedule 9
(Continued)**

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services (Continued)				
Passed Through Minnesota Department of Human Services				
Family Preservation - Title IV-B	93.556		45,458	-
Temporary Assistance for Needy Families	93.558		441,152	-
Foster Care	93.658		26,137	-
Social Services Block Grant Title XX	93.667		403,611	-
Support for Emancipation and Living Functionally	93.674		23,306	-
Coordinated Care Planning Grant	93.958		90,443	-
Passed Through Minnesota Department of Education				
Child Care Mandatory and Matching Funds	93.596		33,031	-
Total U.S. Department of Health and Human Services			\$ 1,179,290	\$ -
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Public Safety				
State Domestic Preparedness Equipment Grant	97.004		\$ 38,224	\$ -
Emergency Management Performance Grant	97.042		31,196	-
State and Local Emergency Operations Planning	97.051		9,411	-
Passed Through Minnesota Department of Natural Resources				
Boating Safety Financial Assistance	97.012		10,000	-
Total U.S. Department of Homeland Security			\$ 88,831	\$ -
Total Federal Awards			\$ 4,584,258	\$ 294,387

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Itasca County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Due to timing differences in revenue recognition under the modified accrual basis, expenditures on this schedule do not equal federal revenues reported in the financial statements.
3. Pass-through grant numbers are presented for grants for which they have been assigned.